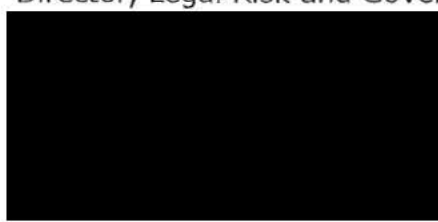




**MINUTES OF AN EXTRAORDINARY MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON THURSDAY, 28 JUNE 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 3.00PM**

Present: Carla Stent  
Tom Cooper **(TC)** Committee Chairman  
UKGI, Non-Executive Director

In Attendance: Paula Vennells **(PV)** Group Chief Executive (CEO)  
Alisdair Cameron **(AC)** Chief Finance and Operations Officer (CFOO)  
Jane MacLeod **(JM)** Director, Legal Risk and Governance



Apologies: Tim Franklin **(TF)** Independent Non-Executive Director  
Ken McCall **(KM)** Senior Independent Director

**ACTION**

**1. WELCOME AND CONFLICTS OF INTEREST**

A quorum being present, the Chair opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

**2. FINANCIAL RESULTS 2017-18**

2.1 The Committee received a report which provided an update on progress towards finalising the financial results for the Annual Report and Accounts (ARA) particularly work to conclude the outstanding post balance sheet matters and determine the 2017/18 EBITDAS. It was understood that the Remuneration Committee would review and address the proposed bonus payments. It was noted that in preparation for discussion on the extent of disclosure regarding the Group Litigation, examples of EY audit reports, where an 'emphasis of matter' narrative had been included in the audit opinion, had been circulated to the Committee. In addition, JM had provided example draft disclosures to assist discussion at the meeting.

2.2 Summarising the Financial Results paper, AC drew the Committee's attention to the following matters in particular:

- (a) Post Office had consulted the Bank of England regarding the off-balance sheet treatment pertaining to the Note Circulation Scheme (NCS). The Bank had confirmed that it held the cash on its own balance sheet. Accordingly Post Office would maintain the off-balance sheet treatment. Adjustments had been agreed which would not impact EBITDAS. EY was content with this approach.
- (b) Following the Committee's review of the ARA at the last meeting, a £5.2m overstatement of accrued Telco income had been identified. PwC (working as an internal audit co-source) had submitted its interim

findings following review of the financial impact. It was proposed that the previously stated EBITDAS of £36.2m be reduced to £35.4m. EY was agreeable to the proposed treatment in principle but would await PwC's final report before confirming the adjustments.

- (c) In 2017/18 provisions had been made relating to trading income which had been accrued as due from the Bank of Ireland. It had recently been agreed (in principle) that Post Office had discharged its obligations under the arrangement, meaning that the provisions which had been made were not required at year-end. Consequently, provisions of £2.3m were being reversed.
- (d) During 2017/18 a new system had been used to calculate agents' pay on the basis of data held in SAP CFS. The calculation to support the accrual for unpaid agents' pay (March 2018) had suggested that the year-end accrual of £33m was overstated by £2m but given the relative infancy of the system, it had been premature to crystalize the credit. Post balance sheet work had permitted a greater review period and Post Office was now confident that the accrual had been overstated. Consequently, the accrual would be reduced by £2m.
- (e) The adjustments for prior year impacts had been reviewed resulting in a net credit of £0.5m which was not material to warrant a prior year adjustment. There had been no deterioration in the quality of earnings.
- (f) Working with EY, Post Office was completing detailed reviews of post balance sheet trading which focused on high risk areas such as debtor and creditor balances with clients, including accruals and pre-payments. Balances processed via POLSAP were within the scope of this work. A number of adjustments had been identified, none of which were material and the net impact was nil.
- (g) AC explained that £2.3m of losses arising from the disposal of fixed assets had been identified and were linked to closed branches. This was recorded in the trading column but would not impact trading profit. There was an over accrual of £0.3m in the investments column.
- (h) Post Office would reclassify £2m of the New Call acquisition price from goodwill to intangible assets following advice from EY. As an intangible asset there would be no profit impact in 2017/18 but in recognition of the customer link, it would be amortised (resulting in circa £0.5m depreciation a year).
- (i) Referring to the mapping of accounts and transactions transferred from POLSAP and received in CFS, AC explained that a further review had provided additional comfort. Covering the previous three years of trading, the values amounted to a gross difference of £18k.
- (j) Post Office continued to work with EY to address the outstanding matters, produce supporting evidence, review internal audit work and agree adjustments prior to finalisation of the ARA.
- (k) In total, trading profit was expected to reduce to £35.4m from £36.2m. EY was happy in principle, subject to completion of its work.

2.3 The Committee understood that there were further areas of opportunity on the balance sheet to release value. Deploying a prudent approach, AC advised that significant work would be needed to verify that each release would be appropriate. Responding to ■■■, AC alluded to customer credits as an example. Circa £3m could not be released to the profit and loss statement without first seeking assurance that all reasonable avenues to reconcile each customer with their money had been

exhausted. Referring to provisions, AC explained that a balance of circa £3.5m was owed to the Post Office by the Postal Museum. It was believed that security against the loan had improved as the museum was now trading but work to satisfy the release was needed. AC provided a further example of circa £0.7m ATM surplus adding that all of these potential releases would require further verification. This work was not considered to be a priority and it was proposed that these opportunities (totalling approximately £8m) be revisited once trading using CFS had matured.

- 2.4 At the invitation of the Chairman, [REDACTED] responded to provide the following updates:
- (a) EY's final opinion on the Telco revenue recognition was pending review of PwC's final internal audit report.
  - (b) EY was awaiting a memo from Post Office's [REDACTED] confirming the outcome of the 2014/17 POLSAP to CFS transfer proofing exercise. Having understood that this had been sent, [REDACTED] **undertook to confirm delivery following the meeting.**
  - (c) EY was concluding its review of the classification of items going into trading or capital investment. Analysis of the sample had not resulted in any material concerns.
  - (d) [REDACTED] **would work through the completeness of depreciation of fixed assets with EY.**
  - (e) [REDACTED] and Post Office's [REDACTED] would review the assets within the fixed assets register which related to closed branches. [REDACTED] referred to evidence provided in response to issues raised by EY and offered his support to co-review the analysis.
  - (f) A meeting would need to be convened to conclude the outstanding IT work. [REDACTED] would coordinate with PM's team to facilitate this.
  - (g) There were a number of additional points of evidence to work through, including third party support for pension assets. It was not expected that the outcomes would change the results.
  - (h) [REDACTED] summarised that the aforementioned matters were priority areas but a complete overview of the outstanding work had been provided in a report to AC's team.

**Post Office Group Litigation – SUBJECT TO LEGAL PRIVILEGE**

2.5 Discussion turned to the disclosure of the Group Litigation. It was understood that the extent of disclosure had become a substantive issue since the Committee's last meeting. Solicitors on behalf of the claimants had recently included an estimate of £80m to £90m in a skeleton argument submitted to Court relating to cost budgeting, and EY had recommended the disclosure of this figure. [REDACTED] believed that the estimated figure should be disclosed as:

- (a) The claimants' had initiated litigation in 2016 and while previous ARA's had included a description of the Group Litigation within the note on contingent liabilities, the claim had not been quantified.
- (b) There were two trials now scheduled in the financial year to discuss preliminary issues.
- (c) The figures contained in the skeleton argument, while heavily caveated, were now technically in the public domain.
- (d) The figures were material and could be considered as the best current estimate of the scale of the potential damages to be sought. [REDACTED]

recognised that disclosure of the figure could be accompanied by a Post Office narrative challenging the reliability of the estimate.

- (e) There was no suggestion that PO could not continue as a going concern.
- (f) Depending on the extent of the disclosure, EY would consider whether it would include an emphasis of matter statement in its audit report. It was acknowledged that this was neither EY nor Post Office's preferred solution. Accordingly, █████ requested the Committee to reflect on the extent of its disclosure and agree updated wording for review by EY. Following receipt of the wording, EY would convene an internal panel to consider whether the proposed note would be sufficient and correspondingly, whether an emphasis of matter statement would be included.

2.6 The Committee noted the text of the existing note, together with alternative examples of disclosures provided by JM, and assessed the potential implications arising from each of the options. The following points were considered:

- (a) **Timing:** the Committee noted that given the nature of the issues to be considered at the upcoming Common Issues and Horizon trials it was not likely that the Claimants' damages would be quantified until after conclusion of those trials and receipt of the respective decisions.
- (b) **Purpose:** The Committee noted that the estimate included in the Skeleton Argument did not represent a formal assessment of damages, was expressed to be "subject to further quantum analysis and formulation" and was only intended to be used as a guide for proportionality of costs, and the Claimants' solicitors had stated "There are inherent difficulties to setting out the quantum of these claims at this stage and the figures should be relied upon solely as a suitable guide for the purposes of proportionality considerations in costs budgeting." JM advised that the Post Office had asked the claimants' solicitor to explain the calculation but a response had not been received.
- (c) **Accuracy:** The Committee agreed that given the relatively early stage in proceedings, it could not be confident that the quoted figure was within a reasonably appropriate range, and indeed potential damages once quantified could be materially larger or smaller, and therefore disclosure of a number now could be misleading.
- (d) **Reputation:** The Committee noted that, as a trusted brand, Post Office must operate in a fair and transparent manner. The Committee discussed who might rely on the disclosure of the figure in the accounts. The Shareholder was conversant with the latest developments in the Group Litigation and the ARA would highlight that the Post Office was defending a large claim. In the circumstances, the Committee believed it was unlikely that the omission of an estimated figure would mislead a stakeholder and cause them to act to their disadvantage. The Communications Team was equipped to respond to any enquiries.
- (e) **Proportionality:** The Committee noted that for Post Office to reference the number in its accounts would lend credence to the figure and that this may have unintended consequences and be damaging to Post Office's defence. It was noted that Post Office's legal team recommended against disclosure.





2.7 Following careful consideration the Committee concluded that the existing draft disclosure in the contingent liability note needed to be expanded, however they did not believe that disclosure of the estimated aggregate claim value (provided as part of a skeleton argument) would be a reliable and fair reflection of the size of claim. They therefore expressed a strong preference not to disclose the Claimant's estimated figure. The Committee authorised JM to draft and circulate proposed wording for the Group Litigation note. The Committee would agree the final wording by correspondence before onward submission to the EY panel.

2.8 The Committee was advised that EY would seek the advice of its internal evaluation panel in the week commencing 9 July before confirming its final position on management of the disclosure. Accordingly the Committee agreed to convene an extraordinary meeting later in July to receive EY's conclusion, review the ARA and make its recommendations to the Board.

2.9 The Committee noted the Financial Results report.

**3. ANY OTHER BUSINESS**

3.1 PV recorded her thanks to AC and [redacted] respective teams for their work to provide assurance and support around the migration from POLSAP to CFS.

3.2 There being no further business the Chairman declared the meeting closed at 4.14pm.

[redacted signature]

Chair

31/7/18.

Date



**MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON TUESDAY, 31 JULY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 09.30AM**

Present: Carla Stent (by phone) Committee Chairman  
Tom Cooper (TC) UKGI, Non-Executive Director  
Tim Franklin (TF) Independent Non-Executive Director  
Ken McCall (KM) Senior Independent Director



In Attendance: Tim Parker (TP) Group Chairman  
Paula Vennells (PV) Group Chief Executive (CEO)  
Alisdair Cameron (AC) Chief Finance and Operations Officer (CFOO)  
Jane MacLeod (JM) Director, Legal Risk and Governance



(Item 9.1)  
(Item 9.1)

Apologies: [Redacted] Rob Houghton (RH)  
[Redacted] CIO

**1. WELCOME AND CONFLICTS OF INTEREST**

A quorum being present, TF opened the meeting on behalf of the Chair (due to the difficulties of chairing a meeting remotely). TF declared a potential conflict as a member of the POI Board and all other Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

All papers were taken as read in advance of the meeting.

**2. MINUTES, MATTERS ARISING AND ACTIONS LIST**

The minutes of the meeting held on 17<sup>th</sup> May 2018 were **approved** and authorised for signature by the Chairman.

The actions status report was **noted** as accurate. There were no actions due which had not been addressed in advance of the meeting or through the meeting papers, other than the IT Security policy action which JM recommended should be closed as it had been approved at RCC and TF concurred.

### 3. UPDATES FROM SUBSIDIARIES

#### 3.1 POMS ARC Committee Report

TF provided a verbal update and noted that the main item in the update, branch selling of Easy Life product reviewed by mystery shoppers, was covered in agenda item 7. The Committee **noted** that the EY audit was substantially complete and that no material items had been brought to the attention of POMS ARC.

### 4. APPOINTMENT OF THE EXTERNAL AUDITOR

#### 4.1 Audit Tender and Appointment

CS confirmed that a detailed and full process had been completed and she was comfortable with the outcome and happy with the recommendation. ARC had seen the scoring and were all comfortable. KM noted that PWC are also remuneration advisors to REMCO and this was not seen as a conflict. It was also noted that [REDACTED], the PWC audit partner is the audit partner at Morrisons where PV is a NED. Given the potential for there to be perception of a conflict of interest, it was agreed that an additional partner from PWC will be assigned to support [REDACTED] ensuring dual attendance at ARC. The Committee also considered the role of PwC in relation to BoI and FRES and concluded this did not cause a conflict.

**Agreed** to approve recommendation to the Board.

### 5. INTERNAL AUDIT

#### 5.1 Internal Audit Co-Source Appointment

A detailed tender process had been undertaken and 8 firms had submitted written bids which were scored for price and quality. The 3 highest scoring eligible bids were taken to presentation stage. PWC were initially invited but had been excluded following the decision on the External Auditor appointment. A recommendation was made to appoint Deloitte who were the highest scoring bidder, awarding a 2 year contract with the option to extend by a maximum of a further 2 years. This had been approved via email by all ARC members on 18th July and the meeting **ratified** this decision.

#### 5.2 Internal Audit Report

The report was taken as read and Committee members were asked for comments or questions to [REDACTED]

##### 5.2 (i) IT Governance & Risk Management

CS noted the reference in the report to the implementation of the IT controls framework and the statement that as a result it is not possible to determine the overall impact on IT governance within the organisation. CS queried whether this was related to the ongoing concerns around timelines. CS queried whether we have the right people generally on Change and do we have effective succession planning in place. CS also noted that there are a few overdue audit observations and asked whether action needs to be taken. [REDACTED] responded that a full test of IT Controls framework is planned for Q4 and key improvements have been identified. CS expressed concern over whether we can wait until Q4 and with big programmes running we need the right governance. [REDACTED] agreed that we would

prefer not to wait until Q4 but until the controls are embedded it is impossible to test them. PV added that in Rob Houghton's absence she had had a response from [REDACTED] relating to management of these risks – particularly with the move to Cloud hosting. PV informed the Committee that she and RH have a weekly call with the CEO of Fujitsu to address issues relating to programme implementation. In addition, GE review the IT incidents weekly. PV commented that [REDACTED] was right to call out the forward risk. JM suggested that the matter be included in the October ARC agenda with internal governance having happened prior to that. TF asked whether project management and controls was a theme of concern, and whether there was a link back to the programme office. [REDACTED] responded that there has been a review by Deloitte to improve areas within the Change Governance process and Project Trafalgar is underway to enhance One Best Way. JM added that she is satisfied that plans are in place for improvements and an update will be presented to the Committee.

RH

5.2 (ii) EUM

[REDACTED] noted that of 17 actions, 14 are now complete. There was a bottleneck on testing and more test environments are being implemented. PV noted that with regard to Smart ID, 1900 of 11,500 branches are not complete and that the call centre capacity has been increased in order to get these complete. CS asked whether we will get to a point where there are sanctions against branches for non-completion and PV confirmed that this would happen and that branches and/or individuals would have access withdrawn pending completion of training.

5.2 BCM

(iii) There are plans in place to address the weaknesses and an update will be brought to the October ARC.

JM/  
[REDACTED]

5.2 Overdue Actions

(iv) There were 2 remaining outstanding actions highlighted in the report: Data classification and lack of data owners, and lack of data leakage prevention solution.

Data ownership is being addressed through the GDPR project and Project Arrow – owners have been identified, however work is ongoing to clarify the responsibilities of data owners. Tools have been identified for data loss prevention and are being tested. The action will be extended to the end of October.

JM/  
[REDACTED]

[REDACTED] noted that 2 reports were being finalised - Telecoms and Pensions. On Telecoms, the final report had been issued on 30th July, with a focus on the customer journey and improvement to Fujitsu continuity management. ACTION – [REDACTED] to circulate the report to ARC. On Pensions there was one outstanding issue. PWC subject matter experts had been engaged to review and currently the findings were being cleared with management. Agreement will be needed on concerns around compliance with pension regulations, certificates of auto enrolment and what actually constitutes pensionable pay. AC confirmed that he would follow up and update ARC ahead of the October meeting.

AC

5.2 (v) Back Office Transformation

TC asked whether there were any other issues on Back Office Transformation that needed to be addressed. AC responded that a substantial review was required which IA had helped with, seeking to learn lessons from other programmes. The



programme had been re-planned and there had been changes to the testing regime. The IA report had not missed anything but was describing a moving target. AC confirmed that there were no surprises in the report. ■■■ relayed that the IA work was done from May to July and that IA were working closely with the programme. Most actions were now complete and good progress had been made. IA confirmed that the planned September go-live date was not feasible. TC noted that the risks highlighted did not include 'unknown unknowns' and ■■■ confirmed that some had now been identified and were being resourced accordingly, for example clearing the POLSAP suspense accounts. AC stated that should any other issues be identified during User Acceptance Testing or Integration Testing, implementation will be delayed. AC assured the Committee that significant work was underway to ensure we understood and had addressed issues such as overnight batch processing times, inventory etc. This work will continue until the go-live decision immediately before the last weekend in October. KM reiterated that we will know by the end of October whether we intend to go-live this year or next year. The Committee agreed that November would be too risky. AC will update ARC in October whether we are on track, although the go / no-go decision would not be made until the day. We are getting reassurance from Accenture and the new provider on the switch over.

AC

## 6. RISK UPDATE

### 6.1 Risk Report

JM updated the Committee on the new consolidated report format and advised that the aim is to build on it to include external risks and risks to our North Star plans. The October report will include 'risks of the moment' for the organisation and how we are managing them, as well as a full roll-out of the Placemat across the whole business.

TF enquired whether there was any update on GDPR beyond "effective compliance". JM reminded the Committee that effective compliance was defined such that all new activities after May 2018 would be compliant. Work was now underway on 'substantive compliance' which would address the legacy position. The main area that had not been fully remediated for May 2018 related to the amendment of all contracts. JM noted that contracts had been defined as 'material' or 'non-material' based on a series of criteria including whether Post Office was the data controller. There are over 80 material contracts and while good progress is being made, there are challenges as we approach counter-parties, some of whom are using this an opportunity to renegotiate other elements of the contract.

Substantive compliance will include a review of unstructured data as well as data retention policies and processes. Training programmes have been delivered across the organisation and awareness has significantly increased. TC asked how ARC will be updated on the ongoing work. JM confirmed that we have monthly internal steering committee and will bring a report back to ARC in October. KM suggested that old data can be a source of issues and asked what is being done to remove historic data that is no longer used so we can focus on upfront compliance and added that it would be helpful to have a clear understanding of the next steps. JM confirmed that the first step is to identify the data and the second step is clarity on deletion, as the risk of deletion can be greater than the risk of holding the data and we need to ensure appropriate protection is in place. As part of RM separation,

JM

some unidentified data has been retained. We have looked at a proposal to take a hard copy held at Womble Bond Dickinson in case of future litigation and we could then delete our copy. CS noted that she had no questions on the report and requested to see a complete list of mitigating actions.

JM

## 7 COMPLIANCE UPDATE

### 7.1 Compliance Report

The report had been taken as read. Pertaining to the actions list, TF asked [REDACTED] for an update on the EasyLife product. [REDACTED] assured the Committee that the issue was being taken very seriously and was a conformance matter. The issue relates to the questions that CRMs are required to ask and the extent to which the tablet journey facilitated these questions. Some branch staff have not been asking the follow up questions which therefore could have a customer impact. [REDACTED] advised that all customers are being contacted to follow up on this matter; the product was launched in February this year so the number is manageable. There are remedial actions and a 'route to green' plan. The issue is that the sales are app-based with the CRMs, and the app is controlled by Royal London. There is an update due in September which will address the issue and we are trying to bring this forward. TF noted that the app should make the CRM ask all the questions and all agreed with this. [REDACTED] assured the Committee that there will be more mystery shopping on the EasyLife product, although not at the risk of reducing other areas. TF asked [REDACTED] to circulate the report as this matter has been escalated by PO Insurance. TC asked whether this is an issue with online applications or only in branch and [REDACTED] confirmed that there is a better audit trail of questions and responses online and at the call centre. The difficulty is in branch and particularly where we have CRMs who are not full time FS specialists but are also performing other branch duties.

[REDACTED] noted that there were some updates to other matters subsequent to the issue of the paper. HMG have issued a future telecoms review and the impact of this is being considered by Meredith Sharples. [REDACTED] also provided an update on FCA and PRA and banking resilience. CS asked whether there was an update on the requirement for POL to retain copies of ID for Bureau de Change transactions for more than £2,000. [REDACTED] confirmed that he and JM had met with HMRC and discussed the requirements. HMRC had now agreed that copies did not need to be retained. All agreed that this was a positive outcome. Nevertheless HMRC still required Fit & Proper data to be submitted on a monthly basis, and this is proving challenging for POL given the size of the network and the various types of agents and individuals who are subject to the requirements. [REDACTED] is looking to support on this from a data perspective. [REDACTED] confirmed that we are currently compliant.

KM raised a query on the external threats on Travel Moneycard. The May attack was deemed to be a 'brute force' attack rather than targeted at POL; no data was obtained

ACTION - Provide an update to the forward looking regulatory agenda in section 20 of the Compliance report [REDACTED].

7.2 **Vulnerable Customers Risk Assessment and Gap Analysis**

The papers were taken as read. CS asked whether the Committee were happy with the policy as presented and whether we have plans in place where there are gaps. ■ confirmed that we have identified gaps and actions to close these gaps, and are currently looking at budget issues ■ advised the Committee that the CMA are carrying out a vulnerable customers review particularly in relation to digital markets, low income and mental health. One of the findings is that people in these groups need time to understand transactions, which POL are in a strong position to be able to support. KM asked why the CMA were reviewing this area and ■ responded that all regulators are looking into it. TC asked whether we train post masters. ■ replied that NFSP are working with the Alzheimer's Society and 'Dementia Friends' training will be offered. Vulnerable customers is part of our training and it is critical we engage with external agencies and so this will be part of our focus. ACTION – update Comms material at next ARC ■

7.3 **Whistleblowing Annual Report**

TF was pleased to note that the report indicated no systemic issues. JM added that we have a process for all reports received and all are investigated and none appear to be systemic failures. TC asked whether we have analysis of closed cases to understand the nature of the issue and what the outcome was, and JM confirmed that we do. JM noted that through the Whistleblowing line we also get bullying complaints which are passed to HR for resolution. If there is a complaint against an agent, it is referred to the Network team. JM noted that allegations of fraud are addressed through our BAU process. These are mostly low level with no particular themes and no individual cases that are likely to result in reputational damage. PV noted that all incidents of bullying and harassment or sexual harassment are reported to her and dealt with appropriately. PV encourages staff to speak up and be objective and noted that there has been a single serious issue.

7.4 **Gifts and Hospitality Annual Review**

KM noted that LRG team were the biggest recipient of hospitality. JM noted that this tends to be where the entire Legal team are invited to attend an event, rather than one or two individuals attending many events.

8. **POLICIES**

8.1 **Review of Anti-Bribery and Corruption Policy Report**

The report was taken as read. It was noted that with the Newcall acquisition of business, no changes were required but with the Panther acquisition all policies will need to be rolled out.

8.2 **Anti Bribery and Corruption Policy**

The policy was approved.

8.3 **Review of Whistleblowing Policy Report**

The report was taken as read.



8.4 **Whistleblowing Policy**  
The policy was approved.

**9. UPDATES FOR NOTING**

9.1 **Compliance with Payment Card Industry Data Security Standards**

█ and █ joined the meeting. The paper had been submitted late so it was not assumed that it had been read. █ noted that PCI issue had been an issue since the start of the year. PCI requirements are upgraded every year so the standards we need to meet are constantly changing. With the rollout of branch equipment, where previously Fujitsu were required to be compliant we now require both Fujitsu and Computacenter to be compliant. There are some contractual issues with Computacenter. POL have tried to satisfy the assessor that we are compliant and it was emphasised that this is a compliance issue rather than a security issue, however there are difficulties in demonstrating that Computacenter are compliant. █ advised the Committee that in parallel with addressing outstanding issues with each of Fujitsu and Computacenter, we are also exploring other options which would address the wider PCI concerns. In particular, these relate to the replacement of the Ingenico supplied pinpads. There is a strategic solution however it will take some time to ensure this is properly scoped. TF asked when the Committee will be updated on the timing and the plan both for regulatory and security issues. █ responded that the overlay of activities and timeline was in the report. TF requested that for the next ARC meeting the Committee should have a clear view of key activities with timeline and view of when we will achieve compliance. ACTION – update at October ARC. TF and TC reiterated that we are currently non-compliant as the date has passed, this has been the case since December 2017 and that currently we have no date for when we expect to achieve compliance. Q1 2020 for the cessation of the Belfast Data Centre was agreed to be too far away to achieve compliance.

█

**10. ANY OTHER BUSINESS**

CS requested that digital data culture be added to the risk report for future agendas.

**JM**

There being no further business the Chairman declared the meeting closed at 10:50am.

█  
.....  
Chair ✓

30/10/18  
.....  
Date





**MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON TUESDAY, 30 OCTOBER 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 09.30AM**

Present: Carla Stent **(CS)** Committee Chairman  
Tom Cooper **(TC)** Non-Executive Director  
Tim Franklin **(TF)** Non-Executive Director  
Ken McCall **(KM)** Senior Independent Director

**Item**

In Attendance: Tim Parker **(TP)** Chairman PO Limited  
Paula Vennells **(PV)** Group Chief Executive (CEO)  
Alisdair Cameron **(AC)** Group Chief Finance and Operations Officer (CFOO)

[Redacted]

[Redacted]

Rob Houghton **(RH)**

Group CIO

5  
9  
10,11  
11  
12

Apologies: Jane MacLeod **(JM)** Group Director, Legal Risk and Governance

**1. WELCOME AND CONFLICTS OF INTEREST**

A quorum being present, CS opened the meeting. All Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

All papers were taken as read in advance of the meeting.

**2. UPDATES FROM SUBSIDIARIES**

■ joined the meeting by telephone. ■ articulated that the report was longer than usual with more detail, because of the timing gap between ARC meetings. POI is on track with targets and making good progress around appointed representative issues and while there had been some failures the MI shows an improvement. TF asked about quality of sales with particular reference to WHSmith branch comments and how do we stop this being an endemic risk? ■ and ■ noted the link to this matter in the compliance report. **It was also noted that the Insurance Distribution Directive (IDD) work will improve this. Update to be provided at January ARC.** On the data breach incident there had been no further correspondence and TC asked whether this originated from POI or Webhelp.

■ confirmed that it was a Webhelp employee although noted it was POI responsibility. TC asked for these matters to be reported upwards immediately to avoid PR issues and CS replied that this would be via the subsidiary board. AC noted that sensible processes exist in the communications team and the executive team had been aware and that it was unnecessary to create new processes. KM asked what would be the process in the event of repeated or continual failures by Webhelp and ■ replied that there are penalties included in the outsourcing agreement on core quality of service rather than the data breach itself however this was a short term issue. ■ **to come back with an update and to provide assurance.** TC asked whether Brexit risks were a communications issue or whether re-pricing would be required and ■ replied that it would be a combination of both. CS noted that this was a commercial issue not unique to POI. ■ noted that the team are working on Brexit risks with ■ and mitigations include a review of pricing scenarios; preparations are based on a no deal scenario considering both risks and opportunities (especially in Identity Services).

### 3. MINUTES, MATTERS ARISING AND ACTIONS LIST

The minutes of the meeting held on 31<sup>st</sup> July 2018 were **approved** and authorised for signature by the Chairman.

The actions status report was **noted** as accurate. There were no actions due which had not been addressed in advance of the meeting or through the meeting papers and all actions marked for proposed closure were agreed to be closed.

### 4. PWC Audit & Risk Committee Update

3 members of the PWC team attended the meeting to introduce themselves. It was noted that they were not formally appointed as POL auditors yet, as EY had not yet resigned. AC updated the meeting that there were a few internal reports still to be completed with EY that were expected to be complete within a week. PWC will be meeting EY as a professional courtesy in the usual way and were in the learning curve phase which they expected to complete by Christmas. **PWC would come to the January ARC with an update.**

PWC

AP noted that ■ and the team had been very welcoming and that PWC had had a good meeting with JM around the litigation. It was also noted that POL's VAT was somewhat complex and the note circulation regulations were a new item for PWC. IT risks and capitalisation would be an area to review alongside ensuring the accounting for the Payzone acquisition was correct. Another area of focus would be the SAP migration, specifically data migration and whether there were any historic balances to be written off. ■ reflected that agent remuneration involved an enormous volume of transactions and the POL / agent relationships added a layer of complexity. He noted that Project LEO (Legal Entity Optimisation) will drive the audit response and a different model for subsidiaries may be required and is sensible to do.

■ introduced ■ and ■. ■ area of expertise is in IT so will be focussing on Change and the cutover planned for end of January. ■ noted that with 2 systems it will be difficult to audit so SAP will be checked prior to the go-live for year end. ■ is meeting ■ to discuss progress and look at any 'showstoppers' and **will feed back to ARC in January;** areas to include how the data will be moved and what the controls are. ■ reiterated that in a year of change there is

PWC



underlying issues will take time to address. PV asked whether the team were providing full co-operation and [redacted] responded that they were. [redacted] noted that [redacted] the Pensions Manager is getting a lot of support and Lisa Cherry the HRD for Retail is overseeing it. The capabilities in the team are being reviewed as part of the operating model work. KM asked **who would present back in January**, and PV said this should be [redacted] and [redacted] and noted that [redacted] had met [redacted] to review deliverables. PV noted that [redacted] has got to grips with the issues immediately and already appointed an interim ([redacted]) to support.

[redacted] updated the meeting that the review of controls around investment funding had been agreed with AC and the document had been issued. TC had requested a review of controls around change of scope as well as forecasted spend on projects. The audit was due to start within 2 weeks and **there would be a report back to the January ARC**. CS asked whether changes to forecasted spend are reported up to Board and AC confirmed that this was the case. It was noted that there can be some tensions between PO processes and UKGI processes and AC confirmed that he was happy to support and that TC had been very focussed on the matter. CS relayed that POL should ensure that the process is streamlined rather than adding layers of approval and the key aim was to ensure that POL receive the funding that is needed to deliver objectives and spend it in a controlled way which the Committee agreed with. **PV requested that TC AC and RH agree scope and timings of the review before commencing.**

To do:  
TC/  
AC/  
RH

[redacted] then discussed the proposed re-prioritisation of audits. [redacted] noted that the review of bank accounts was a newly added audit item scheduled for November and sponsored by AC who wanted to assure ARC that there were no issues around the opening of bank accounts, rather than because an issue had been flagged. KM asked how many bank accounts POL had and **AC confirmed that he would check and clarify the total number**. AC reiterated that there is no known identified risk around this it was simply to provide reassurance.

AC

CS queried why POL had added this audit when others had been de-prioritised and TF asked what the prioritisation process had been:

- Digital Strategy - the team is being built;
- Procure to Pay - there had been no investment to date; the process is legacy driven and inefficient, so an audit would only confirm what was already known. CS noted her concern given there had been a procurement fraud earlier in the year, however PV noted that a lot of work has been done since the fraud. AC added that current controls could be reviewed as a short term piece of work and TF suggested a 'hot spot' check rather than a full audit, in order to give confidence. [redacted] added that weaknesses already identified have been addressed and a follow up could be done on new controls to ensure that they are working. PV noted that RCC reviews the prioritisation process but that there is a need for better communication to ARC and TF agreed that the discussion made sense but was not all included in the paper for ARC. **TF requested that for postponed items the report should state the revised scheduled date.**
- CS asked why client settlement process, agent remuneration and payroll audits had been postponed and AC responded that Back Office Transformation was driving the client settlement postponement and the audit would highlight areas that are already changing, the opportunity for



significant improvement of controls was already identified and it would be sensible to wait until the transformation was implemented and controls were working before auditing. KM noted that he had a differing opinion and that the criticality around the migration and past problem have not changed. CS asked whether the existing controls were still operating effectively to mitigate the risk and KM concurred with the query and remarked that there had been a 9 month delay and that having read the report he questioned why it was postponed and asked how can there be assurance that the existing controls are in fact effective. AC responded that the existing controls can be audited but that there was a resource issue and an interim refresh could be performed while keeping the full audit postponed. **KM requested that something be designed to provide assurance to ARC as an interim measure.** TF added that this could be a short form audit / test control assurance rather than a full audit. **KM requested the list of what has been delayed, what needs interim steps and what has been pushed back. CS asked [redacted] to review the list and consider resourcing requirements.** [redacted] stated that the rationale for the plan was to audit post implementation and CS noted that the delay has caused a longer interim period. TF stated that the rationale needs to be clearer. [redacted] asked whether payroll is audited and [redacted] responded that it is not. AC added that POL believe core payroll is effective and has been for some time.

- TF noted that the audit report had highlighted a fraud on misappropriation of postal orders and asked whether there were any similar products. AC noted that this was different to the financial controls process and **asked [redacted] to follow up on why this hadn't been picked up earlier or followed through.** [redacted] noted that Corporate Postal orders were an exception and [redacted] added that Financial Crime would update ARC in January.

**KM requested additional time in future ARC meetings to ensure that a full discussion can take place on all matters.**

JM

## 6. RISK UPDATE

[redacted] presented the Risk report and noted:

- a route to green timeline for the key risks could be developed, which would confirm how the risk exposure reduces over time. [redacted] confirmed there are 28 risk registers across the business and many of the top risks link to the top 13 PO risks.
- the horizontal reports could help shape reporting of the key principal risks.

CS commented that the ongoing work was good and that POL are changing the lens through which risk is considered, and questioned when an embedded stable state will be reached. [redacted] responded that ensuring there is consistent reporting review is her responsibility and she is keen to achieve this. [redacted] confirmed that the EUM risk reporting evidences that we do track key risks to resolution, confirming that the EUM risk that has been reported since September 2017 is now almost green. CS added that although it was too early to judge, the top risks as reported were in line with expectations.

On Brexit it was noted that POL answers were consistent with other retailers and Financial Services providers. TC asked what were the risks and opportunities specific to POL and AC replied that currently there are seen to be more risks,

notably around travel money and insurance however there are opportunities around International Driving Permits and potentially Identity Service type activities.

Regarding cyber crime, KM mentioned the 'one integrated banking system' initiative and whether POL should be a part of that. [REDACTED] responded that POL are looking at the whole approach on cyber crime and how to utilise different security tools. [REDACTED] has attended a cyber briefing and POL are issuing questionnaires to key suppliers relating to the FCA findings. [REDACTED] stated that POL are reviewing how to get more integrated with the rest of the industry and noted that POL do not own the systems although Bank of Ireland do own systems.

## 7 COMPLIANCE UPDATE

[REDACTED] introduced the Compliance report and noted:

- that there has been a significant improvement in the conduct risk issue. There had been 28 errors in circa 10,500 sales.
- Telecoms new conditions which went live on 1<sup>st</sup> October have been implemented and OFCOM expect a step up in how these are deployed effectively. The POL number of breaches could look like a concern, however these are mostly late reporting and are being addressed. Since April there have been 96 breaches of which 40 were notifiable to the ICO and mostly late reporting. The maximum fine is £1000 per report and so far POL have been fined £3000. The team are working closely with Fujitsu and the contact centre on training, reporting and coaching and [REDACTED] reported that the process is now working.
- [REDACTED]
- TC queried the dashboard report format with the red RAG status relating to Information Security awareness, and asked what the timetable is to address any concerns. [REDACTED] responded that a test on awareness was run on 5,000 employees, to obtain a baseline. Then in June training was conducted and the re-test in July was not a statistically viable update due to lack of respondents. Further training will be rolled out in January.
- TC asked for more detail on the life cancellations, and [REDACTED] replied that cancellations within 15-30 days post sale would ideally be less than 20% and **there will be an update of the data in November with a new data dashboard.**
- TF asked on the Money Laundering regulations whether the concerns were procedural or abetting money laundering. [REDACTED] responded that this is under review.

## 8. POLICIES

Anti-Money Laundering policy renewal had been circulated and was **approved.**  
Financial Crime policy update had been circulated and was **approved.**  
A new Fit and Proper policy had been circulated and was **approved.**

## 9. BUSINESS CONTINUITY UPDATE

[REDACTED] joined the meeting and noted that operationally POL is working well across administration sites with Bristol due to be tested in early November. CS noted that this represented a positive step forward and TF added that this was reassuring. TF

asked whether March 2019 was a realistic target and [REDACTED] assured him that this was the case. An update to be provided on BCP in March. [REDACTED] then left the meeting. [REDACTED]

#### 10. TAX POLICY AND UPDATE

[REDACTED] joined the meeting and highlighted 3 key areas: firstly the VAT control environment, secondly the loss rules around Corporation Tax resulting in POL paying tax earlier and thirdly making taxation digital. The tax policy had been circulated and was **approved**.

#### 11. INSURANCE RENEWALS

[REDACTED] (from Lockton brokers) joined the meeting. [REDACTED] noted that the renewal date had been changed from October to November to enable ARC approval. All deductibles have been reviewed and are considered reasonable and appropriate. AC asked whether POL have cover for employee data breaches. [REDACTED] responded that within the employers' liability insurance bodily injury including mental injury is covered and that POL have some cover. POL is covered against privacy and liability breaches. TC asked whether the insurance covers our agents and [REDACTED] confirmed that it does. CS asked whether in [REDACTED] opinion there is anything else that POL should consider and whether the deductibles on the policy were appropriate and [REDACTED] replied that they have been reviewed and are appropriate. [REDACTED] recommended that POL test the market next year and added that at present he has no concerns. [REDACTED] Other clients of Lockton are reviewing cyber issues and business interruption and liability [REDACTED] recommended that the RCC review risks in Spring 2019. [REDACTED]

The insurance policy renewal was approved.

[REDACTED] and [REDACTED] left the meeting.

#### 12. PCI DSS UPDATE

RH and [REDACTED] joined the meeting. POL has not achieved a Report on Compliance (ROC) from our Qualified Security Assessor (QSA) nevertheless there is no known security exposure. However a data security audit has been commissioned to ratify this statement. The QSA identified 156 remediation activities (managed by Computacenter and Fujitsu), with 13 due to be completed by January 2019.

A tactical solution is required to resolve the issue of unencrypted data on the pinpads in POL's estate. This involves upgrading the technology on the pinpads which it is estimated could be completed in 9-12 months at a cost estimated at £8m - £10m. The team have looked at other ways to avoid this cost and are working through various options with Ingenico, the pinpad supplier. A business case for replacement will be presented to the Investment Committee and as soon as the first pinpads are replaced the risk to POL starts to decrease. Learnings from the branch rollout would be incorporated into the plan. A decision has not yet been taken on whether the rollout plan would be risk based or regional; there is a logic for risk based but regional deployment would be cheaper.

In terms of the risk that POL has while not PCI compliant, [REDACTED] noted that there is an explicit or implied obligation with Moneygram, Banking Framework and other



areas to give clients assurance that POL is compliant so a certificate of compliance is needed to satisfy an auditor should be we audited. There is a further obligation to inform clients of the issue and the planned remediation.

TF enquired whether Ingenico supply pinpads to other customers and why POL are non compliant. RH responded that POL are unclear how many devices have not had firmware upgrades. POL have 4,000 spare devices so these can be updated and put into the network while others are brought back in for upgrades. POL are thought to be unique in the sense of owning the devices as well as being the merchant and POL pays the card charges on behalf of Post Offices. PV asked whether POL should consider a lease rather than purchase arrangement and KM asked what Payzone's arrangements are. [redacted] replied that Payzone do buy devices but the obligation for updates and compliance is with the retailer, so POL have different and bigger accountability. POL are looking at strategy work alongside the tactical. RH noted that the Payzone device could potentially be leveraged to the POL network, although this was fraught with issues. Following the EUC rollout it was demonstrated that security can't be rolled out down a wire. CS asked when the replacement programme would start. RH said it would be as soon as possible once the Gating and Investment Committee processes were complete.

CS asked about mitigations and stated that POL's interim controls must be effective for a 12 month timeframe while the project is delivered. TC noted that this has been a long-running issue and that while RH and the team were investigating remediation and trying to avoid a large spend, could costs have been avoided had POL arrived at a recommended solution sooner? RH replied that no costs had been incurred during this time and remediation costs would not have been avoided. TF noted that he was pleased with the work conducted and the decision.

There being no further business the Chairman declared the meeting closed at 11:35am.

.....  
Chair [redacted]

..... 29/5/2019 .....





MINUTES OF A MEETING OF THE AUDIT AND RISK COMMITTEE OF POST OFFICE LIMITED HELD ON  
TUESDAY 29 JANUARY 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 08.30 AM

Present:	Carla Stent Tim Franklin Tom Cooper Ken McCall	Chair <b>(CS)</b> Non-Executive Director <b>(TF)</b> Non-Executive Director <b>(TC)</b> Senior Independent Director <b>(KM)</b>
In Attendance:	Paula Vennells Alisdair Cameron Tim Parker [REDACTED]	Group Chief Executive <b>(PV)</b> Group Chief Financial and Operating Officer <b>(AC)</b> Chairman, PO Limited <b>(TP)</b> Non-Executive Director <b>([REDACTED])</b> (items 5. – 10.) Group Audit Partner, PwC <b>([REDACTED])</b> Group Audit Senior Manager, PwC <b>([REDACTED])</b> Group Audit Director, PwC <b>([REDACTED])</b> Systems and Controls Director, PwC (by telephone) <b>([REDACTED])</b> Group Director, Legal, Risk and Governance <b>(JM)</b> <b>([REDACTED])</b> <b>([REDACTED])</b> <b>([REDACTED])</b> <b>([REDACTED])</b> <b>([REDACTED])</b> item 6.) CIO <b>(RH)</b> (item 7.) IT Security & Service Director <b>(MM)</b> (item 7.)
Apologies:	Jane MacLeod <b>([REDACTED])</b> <b>([REDACTED])</b> <b>([REDACTED])</b> <b>([REDACTED])</b> Rob Houghton Mick Mitchell <b>([REDACTED])</b>	<b>([REDACTED])</b>

**ACTION**

**1. WELCOME AND CONFLICTS OF INTEREST**

- 1.1 The Chair welcomed PwC to the meeting and especially **([REDACTED])** who was attending his first meeting and would be joining two ARC meetings a year to provide an additional perspective, particularly on IT change.
- 1.2 The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

**2. UPDATE FROM SUBSIDIARIES**

Tim Franklin provided an overview of the key issues from recent PO Insurance ARC meetings:

- PO Insurance had commissioned a review of TIF, its travel insurance underwriter, following reports alleging instances of poor treatment of customers. The initial findings of the review were being analysed but the PO Insurance Board wished to look at alternative providers
- the Competition and Markets Authority's (CMA) response to the super complaint lodged by Citizens Advice created a less stable environment for both PO Insurance and Telecoms. It was hard to gauge what the industry's response would need to be but we were monitoring the situation.

It was **AGREED** that the CMA's response to the super complaint should be shown as a potential strategic risk on the risk register. PO Limited had a significant volume of vulnerable customers and customers who were over 65 and these groups were a focus for the regulator. It was confirmed that we had information on the pricing differentials for Telco.

It was noted that we remained 20% out of tolerance for the quality of sales of financial services products in the branch network. The situation had been notably problematic with some of the multiples like WH Smiths. It was asked whether we should be taking a different approach in light of this and a request was made for ARC to look at the issue in more depth. It was also suggested that we needed a marginal contribution analysis for the multiples and it was reported that this would be included as part of the Retail Strategy paper to the March Board. [REDACTED] reported that PO was working with Bol on how we engaged with multiples like WH Smiths.

**3. MINUTES OF PREVIOUS BOARD AND MATTERS ARISING**

The minutes of the meeting of the Audit and Risk Committee held on 30 October 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

**4. RISK REPORT**

4.1 [REDACTED] provided an overview of the key issues from the report and updates since the report had been issued:

- Back Office transformation had gone live on 24 January 2019, when we had migrated from POLSAP onto the new system. AC reported that manual working had been instituted in half a dozen areas, one fix had been implemented and others were in train. The manual interventions required in Supply Chain were manageable. 200 RM Special Deliveries had not been collected on 28 January 2019 but measures were in place to make sure this error was not repeated. Until we starting receiving the cash reconciliations we could not be confident about the success of the migration but the issues identified to date were resolvable
- Brexit and a “no deal” scenario. A range of mitigations had been put in place and since the report had been issued we had spoken with the Bank of England about whether they wanted us to stock more cash in our distribution centres. They did not think this was necessary currently but we had staff ready in the week before and after the exit date should this be required
- we were maintaining a close watching brief on PCI compliance
- emerging risks were going to be a regular section of the Risk Report
- the risk appetite was still in development but a heat map had been included in the Report for the first time
- [REDACTED] had arranged a meeting with the insurers to identify the risks we were insured against and those we were not.

4.2 A number of points were raised, including:

- whether the Security Strategy Plan was mitigating the risks? [REDACTED] reported that the residual risk had decreased but that we would be bringing metrics on progress to the March ARC meeting
- what interaction there was with the business when assigning risk ratings? It was reported that the Risk Team assigned a risk rating initially but then discussed this with the business area. CS noted that she wanted to be sure that ARC was getting the view of the second line of defence
- whether Anti Money Laundering (AML) should be listed as a principal risk? It was reported that there was going to be a deep dive on financial crime in February 2019 and the severity of the risk would be considered further at this point. The whole network was required to undertake a number of pieces of training that linked to our AML obligations but the need for further work to strengthen against the AML risk was acknowledged
- our view of the financial stability of multiple partners from a risk perspective? It was reported that we did not have a rating for that presently. TC offered to put [REDACTED]

TC  
Exec

in touch with colleagues at UKGI/ BEIS who had a watching brief on potential insolvencies

- It was **AGREED** that an update would be provided on the EUM project.

█ was commended on the good progress that had been made in developing the Report

## 5. COMPLIANCE UPDATE

### 5.1 Compliance Report

█ introduced the report and highlighted the key items:

- that we had decided to self-report to Ofcom our non-compliance over a four year period with the requirement to discount calls for customers using Text relay (this related to hearing impaired customers). Since November 2018, customers using Text relay had been able to make these calls free of charge. 53 customers had used Text relay over the four year period, though only 17 were impacted negatively from a financial perspective. █
- Ofcom complaints for Post Office Home Phone were at their lowest levels to date<sup>1</sup>
- the Security Strategy Plan and the work of the Compliance Team would be coordinated. We were focussed on raising personal accountability and awareness of security issues and expected to see significant improvements in this area.

### 5.2 A number of points were raised, including:

- why we had not reported the Text relay breach █ by the Telco team for some time, it had been escalated following the change of leadership and appointment of a Telco compliance manager. As a result of escalation, specialist regulatory advice was sought and the decision taken to self-report. CS noted that she wanted assurance that late reporting or failure to report compliance breaches was not a cultural issue. █ confirmed that there was increasing engagement of the Compliance team with change functions as well as more dedicated compliance resources. Oversight of outsourcers required a different approach and work was underway to embed this from a regulatory perspective
- concerns were expressed about the Compliance Team being overstretched and the difficulty that had been experienced in recruiting suitable candidates. █ reported that one offer had just been made and that an additional compliance professional had recently joined the business. Our Data Protection Officer (DPO) was on █ but we had appointed a deputy DPO. PV asked how much funding and how much salary levels were affecting recruitment? █ reported that it had been driven by both factors. It was noted that budget conversations were taking place at the moment and ARC members were keen that sufficient compliance officers were in place
- what planning was in place to prepare for the Senior Managers and Certification Regime (SMCR) for the insurance business? It was reported that the PO Insurance team had its own programme in place for SMCR as they were the Principal. CS would ask █ to touch on SMCR arrangements in her next report. It was reported that PO Limited liabilities for SMCR were being considered as part of the Legal Enterprise Optimisation work. It was noted that the FCA was very focussed on SMCR and group responsibilities in relation to this.

To do:  
CS

### 5.3 Information Security Policies Annual Review

<sup>1</sup> In the middle of the Ofcom table.

The ARC noted the papers and **APPROVED** the three updated Information Security policies on:

- Cyber and Information Security Policy
- Acceptable Use Policy
- Protecting Personal Data Policy.

## 6. Money Laundering Reporting Officer (MLRO) ANNUAL REPORT

6.1 [REDACTED] joined the meeting and provided an overview of the key points from [REDACTED] MLRO Annual Report:

- there had been an increase in regulatory scrutiny from HMRC and we were receiving more information requests. Our HMRC relationship partner would be visiting the Chesterfield Office the following week to view our data and had recently visited 50 of our branches
- as more transaction data became available, more issues were identified resulting in more investigations activity. The data tool was currently sub-optimal and options were being considered
- there had been three risk exceptions for products/ transactions over the period:
  - a minor risk exception in relation to the savings account journey on Horizon which had now been resolved
  - reliance on a paper mandate in the Deferred Checking Pilot for Banking Framework Services, for which we were seeking an automated solution
  - for the existing location exercise process.

6.2 A number of points were raised, including:

- whether we were set to achieve the June 2019 deadline for providing complete Fit & Proper data to HMRC? Timely responses from agents was challenging and significant work was underway to ensure data was received in time. Ultimately we had the option to revoke branches' ability to sell financial services products if they failed to respond. We were taking a targeted approach to get the branches with the highest volume of transactions and the new retail structure would assist this focus. Committee Members stressed the importance of enforcing the revocation sanction and it was reported that this had already been applied in some cases. Regular updates were requested on how on-track we were to meet the June HMRC deadline
- if registration costs doubled what impact would that have? It was reported that we had to make a decision in May 2019 about which branches would be registered to sell financial services products
- the PO Insurance MLRO report would be circulated to the Committee for information
- were we reporting in paragraph 36 of the report that we were going to be non-compliant throughout this year? It was reported that we were completing the 90 day regulatory transactions. What we had not been able to do was a holistic pattern analysis that would show particular pockets of issues but we were working to be able to introduce this reporting over the next few months
- MoneyGram compliance with Department of Justice (DoJ) Regulations. It was noted that we had obtained external legal advice on this issue and had met with MoneyGram's global head of fraud to gain a better understanding. The DoJ regulations related predominantly to transactions to and from the US. We would confirm that these responsibilities rested with MoneyGram and that they were now compliant with the DOJ regulations.

6.3 The ARC **REVIEWED** the report and the progress in addressing Bureau de Change controls and Fit & Proper requirements.

## 7. SECURITY STRATEGY



7.1 Rob Houghton and Mick Mitchell joined the meeting. RH reported that a more comprehensive Security strategy report was being provided to the Committee following the discussions at the Board meeting in November 2018. The next steps were to carry out a deep dive with Deloitte, following which it was suggested we provide quarterly reports to the ARC showing how we were performing against the metrics agreed. RH/ [REDACTED]

The strategy focussed on:

- the human element of weak passwords, susceptibility to phishing and so forth. There was an enhanced communications plan and a tool was being implemented to measure password strength. We were communicating with staff about these issues as well as testing password strength. We were making clear to people their personal exposure as well as their professional exposure where basic security requirements were not adhered to. [REDACTED] would include regular reports on progress. This would be ongoing activity, not a programme of communications and training for a period of time
- third party suppliers and their security arrangements
- improving detection and incident responses
- mandatory training for new joiners as well as annual mandatory training for all staff, recognising that additional reinforcement was needed
- the recruitment of a Chief Information Security Officer (CISO) was in train and interviews were taking place the following week.

7.2 A number of points were raised, including:

- whether the risk appetite would be refined? It was reported that it would and that it would be helpful for the Board to understand the limits to what we could do
- whether we were looking at our third parties and requiring them to enforce security rules?  
It was reported that the ethical hack had demonstrated how important it was for us to monitor the security arrangements of our third party suppliers. We were setting up monthly meetings our top suppliers
- whether we would be monitoring sub-contracting by our suppliers? It was agreed that the whole supply chain would need to be monitored
- whether the CISO would have the “teeth” to be able to carry out their role effectively and whether reporting into the Group CIO was the right reporting line or if they should be reporting to someone externally? RH would give this further thought
- whether we should be benchmarking ourselves against the financial services sector as well as the retail sector? It was **AGREED** that we would benchmark ourselves against both sectors
- whether PO Insurance was covered by the Security Strategy? It was reported that they were as they bought our central services.

To do:  
RH

To do:  
RH/[REDACTED]

## 8. INTERNAL AUDIT REPORT

8.1 [REDACTED] introduced the report and highlighted the key issues:

- the Internal Audit Team were now fully staffed and Deloitte had been on-boarded as Internal Audit co-partner. Five audits had been completed since October 2018 and eight were in flight. The relationship with Deloitte was developing well and their day-to-day management was good. We were meeting regularly with senior people at Deloitte
- a draft Internal Audit Plan for 2019-20 would be brought to the March ARC a more holistic approach had been taken to some of the audits we had been carrying out in Chesterfield and this was proving useful.

- 8.1 A number of points were raised, including:
- whether we had an agreed timeline for responding to Internal Audit reports and why it had taken so long for the Expenses Internal Audit report to be issued? AC reported that he had not been comfortable that enough work had been done to see whether we had any fraud risk before issuing the report, especially in relation to corporate credit cards. ■ reported that the team had identified a significant number of exceptions to the policy that had needed to be investigated with receipts requested from credit card holders as well as testing a sample of employee expenses. It was noted that the team had looked at a large data set and had followed up the most significant exceptions. KM noted that he would rather that the Committee receive an initial findings report, setting out the further work which needed to be done and follow this up with a stage 2 investigation. Such issues and delays needed to be flagged to the Chair of ARC
  - when had we had last reviewed the availability of corporate credit cards? It was reported that the recent review had led to the number of corporate credit cards being reduced from 96 to 35. We were in the process of on-boarding a new supplier which had better reporting capability. The expenses policy had been revised to align better with business requirements. The Selenity expenses system had been in place for a year and we had agreed to do some re-training for managers not only on checking the validity of expense claims but also ensuring that these were coded correctly. Committee Members noted that training was vital and individuals needed to be alerted when they were not adhering to the policy. There also had to be an onus on managers to check claims and the receipts. ■ reported that spot checks would continue and a follow-up report would be undertaken in about six months.

## 9. AUDIT STRATEGY MEMORANDUM

- 9.1 ■ introduced the Audit Strategy Memorandum. The meeting with EY had not taken place in October 2018 as planned originally but had now been held and a detailed file review undertaken.

PwC was hoping to be able to rely on the controls within Horizon. PO Limited was a complex business and significant systems change work had been taking place. PwC's approach reflected that this was a higher risk audit for them. PwC would be providing the same level of information it would for a listed company even though this was not a requirement for PO Limited.

EY had finished their final audit reports for PO Limited and these had been signed off; the only outstanding item was their formal resignation letter [*post-meeting note: EY's formal resignation letter was received on 13.02.2019*].

PwC's engagement letter had been agreed verbally. The Chair of ARC would be advised once all the appropriate paperwork had been signed off.

The significant risks for PwC were:

- Risk of Management override of control<sup>2</sup>
- Fraud in revenue recognition<sup>3</sup>
- Impairment of intangible assets subject to amortisation
- Impairment of fixed assets.

Postmaster litigation, would continue to be a focus and updates were received from Jane MacLeod.

<sup>2</sup> Mandatory risk required by auditing standards, applicable to all audits.

<sup>3</sup> Mandatory risk required by auditing standards, applicable to all audits.



The significant risks were prescribed by auditing standards and included data; ledgers with higher risk characteristics; any significant one-off transactions (e.g. the acquisition of Payzone Bill Payments); fraudulent revenue recognition.

Increased risk would be signalled by manual intervention requirements and particular attention would be given to those areas. IRS16, the new leasing accounting standard, had been issued. PO Limited had a high number of leases so this would have a material impact. Investment spending would also be a key focus.

The report set out the approach taken to financial processes in 2017/18 and how PwC would take this forward for 2018/19. PwC was seeking to bring the Horizon system into scope. PwC was finalising its work on the operation of the controls. The report set out PwC's proposed audit approach in 2019/20 as it transitioned from EY.

9.2 A number of comments were raised, including:

- that we had to make sure we were aware of any other work PwC was doing for PO Limited and that appropriate safeguards were in place
- that cash held in branch was a major risk for us. [REDACTED] noted that reconciliations would be a focus for PwC. The move to a new system would not impact on this audit because it was retrospective. AC reported that we viewed cash as an elevated risk at the moment so this was a focus of activity for us. CS suggested that the audit tests proceeded as planned but that if a problem was identified this should be flagged and consideration given to re-categorising the risk
- why Successfactors remained out of scope for 2019/20? PwC reported that this would be an extensive piece of work but an issue they would continue to revisit. AC noted that we were starting to look at Successfactors' long-term strategic position, including considering whether we were going to impair or depreciate. A deep dive into Successfactors was suggested, given the cost of the system and the limited functionality the system provided.

Exec

**10. COMMITTEE EVALUATION REPORT 2018**

The recommendations of the Committee Evaluation Report were noted and the actions proposed were **APPROVED** as set out in the report.

The RCC would be testing risks to a greater extent with material risks being escalated to the ARC. The RCC minutes would also be provided to the ARC. There would be Non-Executive time scheduled with Internal Audit and the Finance Directors for the business areas would be given agenda slots periodically.

The meeting closed at 10.30 am.

[REDACTED]  
.....  
Chairman

29/5/2019  
.....  
Date





MINUTES OF A MEETING OF THE AUDIT AND RISK COMMITTEE OF POST OFFICE LIMITED HELD ON MONDAY 25 MARCH 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 12.30 PM

Present:	Carla Stent Tim Franklin Tom Cooper Ken McCall	Chair (CS) Non-Executive Director (TF) Non-Executive Director (TC) Senior Independent Director (KM)
In Attendance:	Alisdair Cameron Tim Parker [REDACTED] Jane MacLeod [REDACTED] Colin Stuart [REDACTED] Elizabeth Robson [REDACTED]	Group Chief Financial and Operating Officer (AC) Chairman, PO Limited (TP) [REDACTED] (items 5. – 10.) [REDACTED] Group Director, Legal, Risk and Governance (JM) [REDACTED] [REDACTED] (item 2.) Finance Director – FS&T (CSt) (item 6.) [REDACTED] (item 6.) Change and IT Director (ER) (item 5.) [REDACTED] (item 5.)
Apologies:	Paula Vennells	Group Chief Executive

**Action**

**1. Welcome and Conflicts of Interest**

The Directors declared that they had no new conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

**2. Update from Subsidiaries**

[REDACTED] provided an overview of the key issues discussed at recent Post Office Insurance ARC meetings:

- the business was stretched with a number of key projects underway. Thought was being given to the risks and dependencies associated with the projects
- a separate session had taken place on Brexit preparation and risks. The ARC was confident that the team had done as much as possible to prepare
- good progress was being made on Appointed Representative issues
- the Board had decided to change its travel insurance underwriter. It had been concerned about the data breach experienced by TIF and the lack of clarity about the cause of the breach. We have reported a few breaches to the Information Commissioner's Office (ICO) and were mindful of this when taking the decision
- consideration was being given to Fit and Proper compliance risks over the next few months
- the PO Insurance ARC had been disappointed that a WH Smiths branch had been suspended for a second time following poor delivery of financial services
- a pricing paper and a paper reviewing our processes re how we treat customers had been considered. The position overall was seen as fair but it was a subject that would continue to be monitored closely.

It was asked whether any price rises could be seen as exploitative? [REDACTED] reported that the PO Insurance ARC had asked for work to be done to identify any price increase outliers and whether any vulnerable customers had been affected by price rises.

### 3. Minutes and Matters Arising

3.1 The minutes of the meeting of the Audit and Risk Committee held on 29<sup>th</sup> January 2019 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

3.2 Progress with the completion of actions as shown on the action log was **NOTED**. In addition, [REDACTED] reported that PO Insurance and FS&T both included risks on their risk registers which incorporated the Competition and Market Authority's response to the super complaint as a potential strategic risk.

3.3 The draft minutes of the Risk and Compliance Committee held on 14 March 2019 were **NOTED**.

### 4. Compliance

[REDACTED] introduced the Compliance Report and highlighted the key issues:

- Ofcom had responded formally to PO Limited's self-reporting of non-compliance with Text Relay requirements. [REDACTED]
- The regulator was comfortable with our approach on early termination payments. [REDACTED] Customers were asked to sign up to broadband for a minimum term but had a 14 day cooling off period. If they decided to terminate after a longer period and there were reasons for us to apply discretion and waive the termination fee, we would encourage that discretion be applied. We also provide training to our agents on these issues.
- Fit and Proper. We were still aiming to meet the June 2019 deadline for providing Fit and Proper data for all branches selling financial services products and to register these branches with HMRC. We were working through what we would do if agents had not submitted their data in time (which could lead branches being 'switched off'). In tandem, we will be having discussions with HMRC about the potential for an extension should this be required.
- Payment Systems Regulator (PSR) was taking a greater interest in PO Limited cash processing activities. The PSR would need to apply to HM Treasury and Government to expand their role but we wished to flag the additional interest. It was noted that if there were a single cash utility it was likely that this would be regulated and we would need to consider what effective regulation would look like from our perspective.

A number of points were raised, including:

- On Telco: should we consider a 'no blame' / uncontested complaint option? [REDACTED] to discuss this with [REDACTED].
- that we needed to make sure there was appropriate support to ensure agents understood the need to collect and provide the Fit and Proper data if they were struggling to do so.

The Committee **NOTED** the Compliance Report.

### 5. Risk

[REDACTED] introduced the Risk Report and highlighted the key points:

#### Information Security Update

### PCI compliance

██████████ provided an overview of the work streams for PCI compliance: Communications; data Audit; and, IT. The Communications work stream was the route through which we were advising clients about our plans to secure PCI compliance and explained that this was distinct from our security arrangements which we regarded as robust. We had provided updates twice at the Banking Framework Governance Forum. Barclays had, subsequently, asked for detailed information about our compliance plans. The QSA (Nettitude) was helping us with the audit work stream and had provided PO Limited with support and information, including reviewing our Business as Usual (BAU) processes, auditing these and helping to implement changes. The IT work stream posed the most significant challenge. We needed to implement point-to-point encryption of devices and were still developing the scope of this work. We had engaged DWM, a PCI specialist, and were working through the recommendations in their report and identifying where we held card data. Work was continuing with Fujitsu and Ingenico on pin pad encryption and ensuring that the devices worked pre and post encryption. We would be reporting back to ARC after 18<sup>th</sup> April 2019 on the revised scope of the PCI compliance plan. ██████████

We had begun conversations with the banks to enable us to receive data from them in encrypted form which would mean that this data did not need go through the Horizon system which would remove Horizon from the scope of PCI. We still had some control gaps which would need to be bridged in order to obtain PCI compliance. When we transition to the cloud, we would need to make sure that we maintained our PCI compliance.

A number of points were raised, including:

- that we seem to be struggling to find the right scope for the work. The ARC would like some certainty that this was going to be the full and final review. It was reported that more certainty on costs and delivery dates could be provided after 18 April 2019
- that the risk table indicated that the position on PCI compliance was deteriorating. Questions were raised as to why we did not know where we were holding card data and what assurance could be provided that the control had not worsened? It was reported that data discovery had not been completed. The context was that when we upgraded Horizon to HNGA, the QSA had advised us that more was in scope for PCI compliance than we had originally anticipated. By 18<sup>th</sup> April 2019 we expect to be in a position where we understood the scope of the work and can plan to mitigate the back end risk. Where possible, we want to simplify data flows which was why we were having the conversations we are with the banks about receiving encrypted data rather than this data going through the Horizon System
- should we not have clarified what card data we held as part of our work on GDPR compliance? It was reported that that GDPR legislation involves personal data and therefore only applies if the card data was linked to the person but not necessarily otherwise. ██████████ undertook to check the nature of the card data that had been identified through the data audit. ██████████

### Cyber Security

Work had been taking place on Cyber Security (IT and second line risk reviews). The risks and associated mitigations were being considered.

A number of points were raised, including:

- how could Cyber Security be rated amber if we had experienced data breaches? It was reported that the incidents were linked to human behaviour (e.g. use of weak passwords). This risk was seen as a high amber rather than a red risk





- did we know what data we held, where it was located, what our critical data was and that it had been locked down? It was reported that the preliminary Internal Audit Report was included and a more complete report had now been produced. The maturity of the controls had now been validated leading to improved ratings for many of the 34 controls. This linked to actions that the team had already taken. We now needed to update our risk appetite for Cyber Security. We needed to take into account all the recommendations from the Deloitte Report and work out a priority plan; this included clarity on what constituted our "crown jewels" from a data perspective and that this data was secure. [REDACTED] had seen the draft Deloitte Report which benchmarked us against retail and financial services sectors. We would have to set targets on each of the deltas. We now needed to review our priorities against the Deloitte Report to ensure our security investment was appropriately targeted. Work was taking place to understanding the unstructured data we held. We had a Data Protection Officer (DPO), reporting to the Compliance Director and a Chief Data Officer (CDO) reporting to the Chief Information Officer. ARC Members were clear that the Information Security Committee needed to be held accountable for the overarching work and that the ARC needed to receive reports on this Committee's work.

#### RSA Archer

[REDACTED] reported that the RSA Archer integrated risk management system had been introduced for the Security Operations Centre for managing security incidents, but a wider rollout had not yet been agreed. It was noted that the system was critical to us being able to manage data and manage risks by exception. For some time we had not been able to negotiate a suitable price for the service we required but had reached a sensible position and were building a business case, including the information security functionality that was needed.

#### Risk appetite for Information Security

[REDACTED] reported that we would need to break down our risk appetite statements by the different areas of Information Security and would bring these back to the May ARC with some recommendations.

A number of points were raised, including:

- whether we had defined our risk appetite and what within this would constitute red, amber and green ratings? It was reported that we had drawn up our risk appetite statement four years ago but need to consider this again
- the reference in the report to 140,000 "stale" (not accessed within 60 days) files containing sensitive data and about 14,000 sensitive files being shared with external users was queried with Committee Members asking whether the sensitive data had GDPR implications? The ARC requested an urgent update on what was included in the sensitive data [REDACTED]
- whether updates on GDPR would be brought back through the work on information security? It was reported that the GDPR work was almost finished. Record retention was a separate piece of work that would include defining and categorising the unstructured data we held that was not personal data. The ARC requested an overarching paper on data, the work being undertaken and the gaps we had identified; this should include how we managed third party data and the contractual issues associated with this. This paper should be reviewed by the Information Security Committee. We needed proper frameworks in place to be able to look at the wider data security plan. [REDACTED] noted that the third party assurance provisions were quite immature currently. Contractual robustness was one issue but there were reputational implications associated with any data breach. [REDACTED]



### **Payzone Bills Payments (PZBP)**

It was reported that controlled pen testing had been carried out following the acquisition and weakness had been identified in that some PZBP devices could be breached. Work would be taking place over the next 3-6 months to rectify the issue. We had not been able to carry out full pen testing as part of the acquisition due diligence. We would be exploring whether we could charge Payzone for the associated costs. The Committee **NOTED** the Risk Report.

## **6. The Fin11 issue and Telecoms Controls**

Colin Stuart (CSt) outlined the Fin11 issue which had arisen because of a mismatch between the billing system and the Fujitsu data warehouse which had resulted in records being incorrectly treated as live in the Fin11 report but correctly treated as on-hold by the billing system. CSt explained the work undertaken since discovering the error, which had included an independent review by PwC. The recommendations from this report had largely been implemented.

The lessons learnt from the incident included that we had been overly reliant on third party data; the monthly balance sheet reviews had been insufficient; and we needed to receive aged data reports. The recommendations from the report had been rolled out across the business. This included regular meetings between Telecoms and the Finance Team with more testing of the data undertaken.

It was reported that one of the key criterion for the award of new data warehouse contract would be data management, controls and reporting.

A number of points were raised, including:

- whether there was a contractual obligation for Fujitsu to give us accurate data? It was reported that this was not a contractual requirement of the historic agreement and will be included in any future agreement
- whether there were any outstanding concerns about balance sheet reviews? It was reported that third party data remained an area of focus and that Grant Thornton had been engaged to undertake a review of our third party data
- what was CSt's view of the current control environment? CSt reported that he had confidence in the current control environment.

The Committee **NOTED** the report on the Fin11 issue and Telecoms Controls.

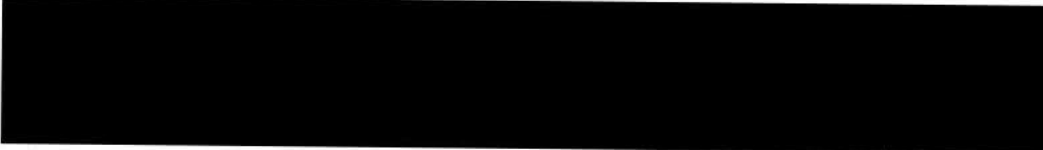

## **7. Back Office Transformation**

Al Cameron reported that on 28<sup>th</sup> January 2019 we had transitioned our Supply Chain operations to Transtrack CWC and financial processes to our Core Finance System (SAP CFS), which had mitigated a significant hardware risk. The migration had gone well. The "go live" on the cash side had identified two areas where there would need to be cash workarounds. That position was almost back to normal although reconciliation differences remained. The reconciliation report had worked before "go live" in the Belfast Cash Centre but had not worked after "go live". Cash was being counted correctly every week and data was being captured accurately but this was not flowing through correctly into the SAP CFS system.

Transtrack CWC had not been able to provide the service we needed, which in addition to the problems in reconciling daily cash movements from Transtrack CWC through to CFS, had led to delays in the intermediate and permanent solutions for branch cash forecasting. We had investigated the source of the problem and the main issue was that Transtrack had not been able to work through the issues quickly enough. As a result, we are unlikely to be building cash forecasting into the Transtrack CWC system.




A number of points were raised, including:

- 
- what were the accounting implications? We are working with PwC on end of year accounting and auditing.  reported that PwC was alert to the issue and its auditing work on cash would be substantive and with a focus on reconciliation.

An update was requested for the May ARC meeting.

Executive

8. **Internal Audit**

 advised that there had been delays in finalising some of the reports, however network reporting and branch hub change reporting had been finalised since the report was issued; agent remuneration should be finalised this week. Vendor management should be finalised this week although there were certain actions where it was unclear who would be the appropriate owners. It was suggested that ownership of the framework should be jointly owned by the GC and the CIO, given his new additional operational responsibilities.

AC requested that delays in finalising reports should be reported to the CEO in the first instance and then to the ARC Chair should there be concerns.

It was noted that there were a number of reports due to be finalised before the May ARC and the Chair requested that these be issued to the Committee in stages, rather than waiting until the next meeting. It was noted that as a result of the GLO decision, consideration would need to be given as to whether additional audits needed to be scheduled around branch trading issues and processes. These would be monitored at subsequent meetings.

9. **Treasury Policy**

The paper and proposed changes to the Treasury Risk Management Framework, Policies and Authorities were noted and discussed.


Tom Cooper would have a separate conversation with the Executive about the Barclays overdraft. He also asked about the hedging arrangements for foreign exchange. It was reported that we did not want to take risk in relation to foreign currency. TC suggested that the Executive consider whether it would be appropriate to have two hedging arrangements in place, one to deal with short term currency fluctuation, the other with the longer term position.

TC / AC

The ARC **APPROVED** the changes to the Treasury Risk Management Framework, Policies and Authorities set out in the paper presented.

10. **AOB**

There being no further business, the meeting closed.

  
.....  
Chairman Date

29/5/2019

<sup>1</sup> That was likely to be in May or June 2019.



**Actions from meeting**

Minute	Action	Lead	Due Date
4.	<b>Telco:</b> should we consider a 'no blame' / uncontested complaint option? [REDACTED] to discuss this with [REDACTED].	[REDACTED]	May
5.	<b>Compliance:</b> revised scope of the PCI compliance plan to be circulated to ARC.	[REDACTED]	May
5.	<b>Risk appetite for Information Security:</b> update on what was included in the sensitive data shared (14,000 files) with external users.	[REDACTED]	May
5.	<b>Risk appetite for Information Security: overarching paper</b> on data, the work being undertaken and the gaps we had identified; this should include how we managed third party data and the contractual issues associated with this. To be reviewed by the Information Security Committee	[REDACTED]	May
7.	<b>Back Office Transformation:</b> update on (1) whether Transtrack could adequately support us; (2) any accounting implications there are.	Executive	May
9.	<b>Treasury Policy:</b> Tom Cooper to have a separate conversation with the Executive about the Barclays overdraft. Executive to consider whether it would be appropriate to have two hedging arrangements in place, one to deal with short term currency fluctuation, the other with the longer term position.	TC/AC	May

