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POLARC14 (3rd)
14/18 - 14/28

POST OFFICE LIMITED
(Company no. 2154540)
(the Company)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on 15 May 2014 at 148 Old Street, London, EC1V 9HQ**

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director (by telephone)

In attendance:

Alice Perkins	Chairman
Chris Aujard	General Counsel
Chris Day	CFO
Sarah Hall	Head of Financial Control and Compliance
Malcolm Zack	Head of Internal Audit
Mark Davies	Communications Director (Minute POLARC 14/20-14/21 only)
Angus Grant	Partner, Ernst & Young
Steve Lyon	Ernst & Young
Belinda Crowe	Programme Director Project Sparrow (Minute POLARC 14/23 only)
Gill Catcheside	Assistant Company Secretary

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INTRODUCTION

A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.

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MINUTES OF THE LAST MEETING AND MATTERS ARISING

- (a) The Committee approved the minutes of the meeting held on 6 March 2014 for signature by the Chairman of the Committee.
- (b) The Committee noted the actions list dated 8 May 2014.

Irrelevant

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Irrelevant

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Irrelevant

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AUDIT RESULTS REPORT

- (a) Copies of the report produced by Ernst and Young, setting out the external auditor's preliminary conclusions on the financial position and results of operations for the Post Office for the financial year ended 30 March 2014 had been circulated to all those present at the meeting.
- (b) Angus Grant confirmed the independence of the external auditor and commented on the approach to the audit and its scope.
- (c) The significant audit and accounting issues set out in the report were discussed in detail, together with the key internal control findings. Steve Lyon advised that the approach by the Business was in line with the plan submitted to the Committee last year. It was noted that there were no unadjusted misstatements.
- (d) The management dispute of the information provided by Fujitsu for Homephone was discussed. It was reported that there was a difference of £2.8m between billing and recognised revenue. The CFO advised that a lessons learned review would be carried out, but that a greater degree of control within contractual negotiations was required. The Committee was advised that Fujitsu had agreed to a forensic audit of the revenue data. It was agreed that an update would be provided to a future meeting.

ACTION:
CFO

Irrelevant

- (i) The Committee noted the report.
- (j) Mark Davies left the meeting.

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DATA CENTRE PROCUREMENT

- (a) The Committee received an update on the risk management evaluation of the Data Centre Tower Procurement. It was noted that the update had

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been considered by the Executive Committee the previous week.

(b)



- (c) The Committee discussed the single bidder scenario, and why other bidders had withdrawn from the process. It was suggested that something might have been wrong with the tender, which should have been reviewed and assessed at the time.
- (d) The extent to which the Post Office could be liable for the costs incurred by Fujitsu (the bidding party) was discussed. The CFO advised that bidders had a 30 day window after cancellation of a contract to lodge an objection and make a claim for costs, but that nothing had been received from Fujitsu.
- (e) The Committee agreed that it was important to learn from the issues raised, and that there was a need for formality around the process and documentation.
- (f) The Committee noted the paper and asked that a short summary of the management actions that were proposed to be taken in consequence of the matters identified in the paper be submitted to the July Board, following further discussion at the Executive Committee.
- (g) The current relationship with Fujitsu was discussed. The CFO reported that internal governance processes were being tightened up by the IT Transformation Steering Group.

ACTION: CA

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PROJECT SPARROW

- (a) Belinda Crowe joined the meeting.
- (b) The Committee received a report on lessons learned from the handling of the commissioning of the Second Sight investigation into Horizon and subsequent events.
- (c) It was noted that there was a need for a formal protocol for enterprise wide response to enable the Business to respond quickly and effectively to any crisis, high risk or high profile issue. The Committee also discussed whether there was a need for an identified in-house team ready to deal with such issues.
- (d) It was agreed that establishing such a team (or teams) would be sensible action, and that appropriate oversight by the CEO and/or the Board was important. The Committee also suggested that scenario planning should be considered, and a virtual crisis management team and support (lawyers, accountants, internal and external resources) be put together.
- (e) Chris Aujard was asked to raise the matter at the Executive Committee, with a view to bringing a recommendation to the Board in due course. The Committee asked that the matter be considered as quickly as possible

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ACTION: CA and a team assembled and leader identified as soon as possible.

- (f) The Committee noted the report.
- (g) Belinda Crowe left the meeting.

Irrelevant

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ANY OTHER BUSINESS

- (a) Malcolm Zack reported that the IT Risk Advisory work on engaging third parties by PWC was almost complete, and would be considered initially by the Transformation Committee before being submitted to the Committee.

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DATE OF NEXT MEETING

The date of the next meeting is 10 November 2014 12.00 – 14.00.

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CLOSE

There being no further business, the meeting was declared closed.

Alastair Marnoch