

Approach to Business Risk, Branch Audit and Accountancy Support for Operators

Background

Network Operations have produced a proposal which delivers cost reduction benefits for 16/17 from within the training and audit function; this is based on reduced activity in the field. Using these new 16/17 projections the original audit proposal, which was borne out of 14/15 baseline, cannot be funded. Additionally the reduction also brings into question the ability to introduce the "Learning Academy" ownership of the delivery of training.

For clarity this paper addresses only the audit proposal.

Context of proposal to reduce resource and costs

- **Audit and business losses**

At a time of increased new agent debt and increased average audit loss it may feel counterintuitive to be reducing the level of physical audit resource available in the field. One of the proposals produced by Network Operations wherein there is a small central intelligence function established may mitigate some of the risk but this has yet to be proven. Work also needs to be undertaken to establish how this interacts with the existing fraud risk team.

Losses at Audit*			
period	Audit loss identified (number)	Total value	Average loss
Apr - Dec 2014	309	£1,327,903	£4,297
Apr - Dec 2015	225	£1,620,947	£7,204

* Supplied by Colette McAteer, Fraud Analysis Team Leader

Former Agents New Debt#					
period	2008-09	2009-10	2010-11	2011-12	2012-13
total	£7,100,000	£4,116,000	£2,642,000	£2,221,000	£2,670,000

period	2013-14	2014-15	2015-16 p9
total	£1,271,358	£1,598,724	£2,199,874

Supplied by Alison Bolsover, Senior Debt Recovery Manager

- **On-going claims from operators that Horizon is the cause of losses**

Project Sparrow related claims continue to be made by agents, despite the closure of the mediation scheme. A number of the experts from the investigation phase of Sparrow have returned to the generalist field team role and will be subject to reduced use of their expertise. Sparrow remains an on-going risk with media and political interest.

The risk continues of our not getting our approach to supporting agents right: - legal liability; reputational damage; inability to recover debt; loss of control of compliance and conformance within network. This risk is real and we have seen it over the last few years. We continue to be accused of not getting our support for agents' right when they have accounting difficulties. Part of the Sparrow conclusions, and recommendation, is that changes should be made to the business as usual structure so that any such claims are addressed in a professional and timely manner and that losses are able to be monitored and mitigated before they escalate. The optic of a recommendation that reduces audit and intervention resource without evidence that it will not adversely impact our operational performance and the support we give our agents is not an attractive one.

The proposal

The importance of repairing the trust and confidence in our network and demonstrating an operational commitment to support our agents should be paramount. To this end the table 1 below lays out the activity that we believe should be designed into any audit related field structure with any reduction in these levels only coming about after, and if, proper impact assessment and mitigation can be demonstrated. Table 2 expands explanation.

Ownership of losses would be within the Network Services Area as the levers to influence these losses would be wholly owned in this area.

Proposed baseline activity

Table 1

Activity	Ave time to do (hrs)	proposed baseline	Time in hours	FSA	FTL	FA	FTL	Total	FSA's requ
F2F Service Intervention	7.00	300	2100	1		2100	0	2100	1.6
Telephone Intervention	1.00	300	300	1		300	0	300	0.2
Financial Asset Audit	9.00	840	7560	2		15120	0	15120	11.7
Compliance Risk Audit	1.00	460	460	1		460	0	460	0.4
Crown Audit FAA & Comp	10.00	100	1000	4		4000	0	4000	3.1
WHS FAA & Compliance	9.00	40	360	3		1080	0	1080	0.8
Burglary/Robbery Audit	9.00	75	675	3		2025	0	2025	1.6
Random Audit	7.00	100	700	2		1400	0	1400	1.1
									20.6

Table 2

F2F Service intervention - not reduced and no assumption as to a shift to phone - still need to be seen as available for those who need help. Have not classed as training as want to maintain accountancy expertise.

Telephone Intervention – not reduced as increased level of analysis should lead to greater rate of proactive calls - also will function as tier 2 expert domain for accountancy escalations.

Financial Risk Asset Audit – 50 type 110 audits per month (600p.a.); 40 type 175 p.a. (suspension follow up and a requirement to visibly demonstrate that follow-up, including at some non –suspended branches that do not appear high on risk register). 200 type 200 special requests p.a. but not high on risk. All requests from all sources enter process through central intelligence team.

Compliance Risk Audit – Sue Richardson Included as proportion of FAA audits as add on, and at all random. Risk (360), Random (100)

Crown Audit FAA & Comp - continue activity as service to crown network if required

WHS FAA & Compliance – continue service to WHS network if required

Burglary/Robbery Audit - Sue based on current YTD run rate of 6.25 per period and maintain, however review means of delivery

Random Audit - External audit requirement but review when risk analysis proves robust

Further, the resource required to deliver the field activity and the desk intervention should be detached from the multi skilled training and audit team to form a specialist team led by personnel with the investigative skills and experience from the Sparrow project, and incorporating HORIce analysis skills which will form a tier two expert domain for all reactive accounting escalations NBSC tier one are unable to resolve.

Cost of Resource Required v that in a 14/15 baseline

Total cost per role supplied by finance to Sue Richardson (Inc. pay, T&S, bonus, lease)

Had this field resource continued to be provided from a 14/15 baseline it would have been: - FSA £36.7k x 20.6 = £756k and FTL £47.7k x 2 £95.4k = **£851.4k**

In addition a 3a manager saving has been made from Network Operations template through temporary secondment to Sparrow which will need to return to Network Operations and either be accounted for or consulted upon to remove and VR paid. There is a second 3a role which can return to a temporarily covered post, therefore 1 x 3a

£66.7k

Budget that would have been available if used 14/15 baseline: - **£918.1k**

The coast of the proposed structure working within a reporting line Network Services:-2 x 3a posts from Sparrow = £133.4k and 20.6 x FSA roles @ £36.7k =£756k. Cost of delivering the proposal: - **£889.4k**

saving of £28.7k
p.a.

Further opportunities exist 1:-

As an expert domain for accounting escalations there will be an opportunity to rationalise that function currently provided within FSC product and branch accounting where these enquiries land, as this central team team will have the access and expertise.

Estimated potential further saving from within FSC **£49.5k**

Further opportunities exist 2:-

As users of the same information the fraud risk and analysis team who approach the issue from a business risk reduction and investigative perspective could also be incorporated into the new structure. It is important the two elements remain a degree of autonomy of operation as a "cry for help" should not be met with a fraud investigation, but equally it must be recognised that there will be synergies of operation and savings opportunity

To summarise the commercial security and team of 11 is headed by a 3a and has 2x2a's and on template 8xPO's (one of which is listed as vacant)

Baseline actual cost and activities would need to be quantified but a target of a 20% budget reduction from template by bring team under same umbrella and rationalising activity to avoid double handling/duplication should not be an unreasonable objective.