

Prepared for the purposes of mediation

Initial Complaint Review and Mediation Scheme

DRAFT Factfile

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Introduction

This overview has been prepared with a view to informing the reader of the basic functions of the Horizon system and Post Office's branch trading practices.

It is not an exhaustive explanation of every trading practice or procedure of Post Office. There are a number of product and scenario specific processes that are not described in this overview.

Specify (somewhere) the product and scenario specific processes that will not be included in your report.

Post office: an overview

1. Post Office is a commercial business with a public purpose. The majority of its income is self-generated but it does receive financial support from its ultimate shareholder, the UK government. It has around 11,500 branches, sells more than 170 products and services and employs almost 8,000 people.
2. Although traditionally, Post Office is thought of a place to post mail, its branch network now provides a full range of products and services, from financial services such as commercial / personal banking and access to government benefits through to home telecommunications. A non-exhaustive list of products sold by Post Office is at Annex 1.
3. Historically, Post Office was part of the Royal Mail Group with operations and services centrally controlled for both businesses. In April 2012, the two businesses separated and Post Office has since traded as a separate company.

Suggest providing a copy of the current contract - ideally with an audit trail of significant changes over the recent years

Subpostmasters

4. The majority of Post Office branches are run by independent subpostmasters and are known as "agency" branches. Subpostmasters are, in the main, individuals who are contracted to run Post Office branches. They are individual contractors and not employees of Post Office and their position is similar to that of a franchisee.

Should also include a reference to the Licence fee charged to some/all SPMRs and also the "vetting" process of new applicants.

5. A subpostmaster does not need to render personal service – they may employ "assistants" to conduct branch business. In some cases, a subpostmaster may employ a manager to run his/her branch and may have minimal personal involvement in day-to-day operations. The employment of assistants is the subpostmaster's responsibility. In this document, where an activity is said to be undertaken by a subpostmaster, this activity could also be undertaken by an assistant in most cases.

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6. Each subpostmaster owns (or leases from a third party landlord) the premises from which the branch is run. Other than setting minimum standards for the premises (in terms of legal ownership rights, physical security, etc.) it is the subpostmaster's responsibility to provide the branch premises.
7. Typically, the premises will be part of an existing business like a convenience store. This existing business is typically referred to as the "retail business". Part of the premises is given up to transacting Post Office business and the Post Office equipment, cash and stock is generally kept separate on the Post Office side, away from the retail business, although the new "local model" which has been introduced as part of the Network Transformation Programme (see paragraph xx below) has changed this position.
8. In terms of transacting Post Office business, the subpostmaster is an agent of Post Office. In legal terms, Post Office business is a transaction between the customer and Post Office Limited, with the subpostmaster acting as Post Office's agent to complete the transaction. As the subpostmaster is not undertaking business in his own name, all the cash and stock held at a branch are owned by Post Office. In effect, the subpostmaster is a steward of this cash and stock, and although it is under the subpostmaster's control, it is not owned by the subpostmaster.

cross reference to Network Transformation Programme and an explanation as to how this has changed the position

Other branch types

9. **Crown** - There are around 350 "Crown" branches that are directly owned and run by Post Office. The staff at Crown branches are employees of Post Office Limited and the branch is run by an employed "branch manager" rather than a subpostmaster. The operating procedures at Crown branches are largely the same as those at agency branches. Further information is available at paragraph xx below.
10. Crown branches also operate Horizon and Crown employees who access Horizon are given their own unique user ID in the same way as subpostmasters and their staff in agency branches. The navigation and operation of Horizon, including the processes used to sell products, run reports and transaction corrections are the same across agency and Crown branches. Crown branches are audited in the same way as agency branches which, as explained at section xx below, is to verify the assets held in the branch.
11. As Crown branches are directly managed by Post Office, the reporting and procedures in terms of balancing and cash declarations are slightly different, for example, Crown branches work in weekly balancing periods (and therefore roll over weekly instead of monthly – see further below at paragraph XXX) and in an effort to minimise losses, there is also a requirement for misbalance checks to be performed on all stock units which misbalance by £30 and over.

add an explanation of "Roll Over" and "Misbalance checks"

12. Branch managers of Crown branches, unlike subpostmasters, are not liable for any losses that a Crown branch may suffer (see paragraph XX). This is because branch managers are employees of Post Office and Post Office, as the owner of the branch, directly carries any loss. That is not to say that Post Office does not take action against employees based in Crown branches if discrepancies arise, but such action is taken

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pursuant to the employer/employee relationship (unlike in the case of a subpostmaster where action is taken pursuant to the subpostmaster's contract). However, if Post Office has reason to believe that a criminal offence has taken place at a Crown branch it will bring criminal proceedings against Crown employees in the same way it can against subpostmasters.

Cross reference required and again a reference to the terms of the contract

13. **Multiples** – Sometimes branches are located in much larger businesses such as Cooperative convenience stores or WH Smiths. These larger businesses tend to have multiple branches and are therefore called "multiples". The operating procedures at multiples are largely the same as those at agency branches.

The Network Transformation Programme

14. The Network Transformation Programme (**NT Programme**) that is currently underway is seeking to change the way that Post Office services are offered in branches.
15. Under the NT Programme subpostmasters transfer to either a "main branch model" or "local branch model". The main branch model continues to offer a dedicated Post Office counter which is physically separated from the subpostmaster's own retail business. The local branch model fully integrates Post Office services within the retail business so that subpostmasters can offer Post Office services from the retail counter rather than a separate dedicated Post Office counter. This often means that Post Office services can be offered for much longer hours than before, in many cases from early morning until late at night, seven days a week.

The National Federation of Subpostmasters ("the NFSP")

16. The NFSP is the organisation recognised by Post Office to negotiate on behalf of subpostmasters nationwide. It looks to improve the pay and conditions of service for subpostmasters. It also negotiates with Post Office on the payment for all services and products transacted over a Post Office counter. The NFSP works closely with Post Office on a range of other issues including post office security, operational systems and technology.
17. The NFSP provides a range of services offering support, advice and information to its members. Its monthly magazine, "The Subpostmaster", provides up-to-date information on issues affecting subpostmasters. A 24-hour helpline gives advice on matters such as contract issues in relation to the staff employed by subpostmasters. The NFSP cannot provide Horizon related technical assistance.
18. Representation and guidance is available from the NFSP in the event of disputes with Post Office. Subpostmasters have access to local support through local branches of the NFSP and its Executive Officers. The NFSP also runs a Benevolent Fund providing financial support to subpostmasters in need.

Subpostmaster's contract

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Again some sort of audit trail on changes to the 1994 contract would be useful

19. The subpostmaster's contract has been subject to several revisions over the years, most recently in connection with the NT Programme. However, the core principles have generally remained unchanged. The majority of subpostmasters currently provide services to Post Office under the 1994 issue of the standard subpostmaster contract (as amended from time to time). The terms of the subpostmaster's contract are jointly drawn up by Post Office and the NFSP and the NFSP approves all subsequent variations to the contract.
20. Under the standard subpostmaster's contract, subpostmasters are remunerated based on a combination of fixed and variable sums calculated according to the volume of business that they transact.
21. A subpostmaster also has responsibility for the safekeeping of Post Office's cash and stock. A subpostmaster is therefore liable for any loss of cash or stock in their branches if that loss is caused by their carelessness, negligence or error (clause 12(12)) or by the carelessness, negligence or error of their assistants (clause 15). If cash or stock is lost by the fault of the subpostmaster, the subpostmaster is obliged to reimburse Post Office for that loss. The way that losses can occur is set out in section **REFERENCE**.

Cross reference required. Also significant that this section refers only to losses

22. Serious errors by subpostmasters can result in a subpostmaster's contract being suspended and/or terminated, and/or action being taken against the subpostmaster (or their assistants) through the civil courts to recover any related loss.
23. Where Post Office discovers evidence of criminal wrongdoing, it may exercise the right to bring a private criminal prosecution, which right is available to all companies and individuals. Typical criminal prosecutions are for fraud, theft or false accounting (where a subpostmaster has declared transactions or stock or cash levels within the branch which the subpostmaster knows are not true). Post Office sometimes refers these prosecutions to the police/national prosecution service (being the Crown Prosecution Service in England and Wales and the Procurator Fiscal's office in Scotland). However, in the vast majority of cases, Post Office undertakes a private prosecution of the subpostmaster.

Add reference to the process followed in Northern Ireland - even if only to confirm that it is (presumably) the same as in England?

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Horizon and branching accounting

Horizon

24. Horizon is the electronic point of sale IT system used in all Post Office branches to undertake transactions (from selling lottery scratch cards to cash withdrawals and currency exchanges). In 1995, Post Office commissioned the Horizon system ("**Horizon**") from the company now known as Fujitsu Services Limited. Horizon is accredited by Payment Card Industry Data Security Standard and ISO 27001. It is currently used by more than 68,000 users across 11,500 Post Office branches.
25. The system encompasses the following elements:
- 25.1 both bespoke and off-the-shelf software packages;
 - 25.2 the computer hardware and communication equipment which is installed in each Post Office branch including the touch screen counter terminal and printers;
 - 25.3 the central data centres where transaction data from each branch is stored;
 - 25.4 the control and monitoring systems; and
 - 25.5 the testing and training systems.
26. Horizon stores all transactional data undertaken at each counter in Post Office Data Centres. Each terminal communicates with Post Office Data Centres via a secure communication line with a back-up communication system and in order to communicate Horizon must be 'online' on the internet. Financial data is stored by Post Office for a period of seven years in line with data retention policies.
- Be more specific about data retention policies and how they are applied.
27. In 2010, Post Office rolled out "Horizon Online" as part of its Horizon Next Generation (often referred to as "HNG-X") Programme to provide a simplified network based on the centralised processing of data. The main changes were "behind the scenes" with a new "user interface" and principally affected the way each terminal communicates transaction data to the central Post Office data centres. The main roll out of Horizon Online began in June 2010, following a pilot involving 1,422 branches, and completed in September 2010.
28. All Horizon transactions are conducted through a "conversation" between the terminal in the branch and the systems within Post Office data centres. These "conversations" are conducted over a secure cryptographically protected "VPN" – a virtual private network which allows private data to be shared securely across the internet. Transactions on Horizon can only be undertaken physically on a terminal in a branch by a valid user (through their user ID). Transactions cannot be undertaken remotely.

The last sentence "Transactions cannot be undertaken remotely" is one of the "statements of fact" to which I referred in my message which appears to run counter to the assertions made by some SPMRs so this needs qualifying or nuancing in some way.

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29. Transactions can comprise of a number of “conversations” each of which has a unique sequential serial number. Horizon records all data centrally in the Branch Database in the Post Office data centre. A copy of all “conversations” is also made to a separate audit server where they are digitally stored independently. Specific security personnel at Post Office have read-only access to this audit server.
30. There are a number of reconciliation and integrity checks built into Horizon to guarantee the integrity of the data. For example, all data passing from Horizon to third parties or to Post Office’s “back office” (Post Office’s financial systems which receive nightly feeds from branches to hold a financial view of all transactions undertaken in each branch) are driven from “one source” to ensure that every recipient receives the same correct data. Financial transactions such as banking withdrawals and card payments are matched against the Bank’s view of the transaction i.e. if £100 has been withdrawn at a branch, this will be recorded in Horizon and will be matched against the Bank’s record that £100 has been withdrawn. If discrepancies arise they will be addressed following Post Office’s procedures (further details are set out below).

Branch accounts and the principle of double entry accounting

31. Horizon is also an electronic accounting system. It tracks every transaction made in a Post Office branch and ensures relevant double entry bookkeeping for it. Those transactions include both transactions recording sales or services to customers and record keeping for deliveries of cash and stock in and out of the branch. Horizon enables staff in the branch to run reports referred to as “Balance Snapshots” as and when they require and to look up the recorded amount of cash and stock on hand.
32. The system’s core principle is that of double recording i.e. entries generally have a corresponding and opposite entry so as to “balance” the account. For example, if a product is sold for cash this would in most cases result in a reduction in a branch’s stock levels of that particular product line and a corresponding increase in the amount of cash recorded as held at the branch.
33. A typical example of double entry would be the processing of a “personal banking” cash withdrawal by a customer. Horizon would record a credit (a reduction) in physical cash holdings in the branch due to money being paid to the customer. It would also record a debit in the payments section of the Balance Snapshot which reflects the debt now due to Post Office from the relevant customer’s bank.
34. The effect of this double entry system is that an input in one part of the branch’s accounts can cause corresponding changes in other parts of the accounts.

Example:

The levels of stock held in a branch can be manually adjusted. A reduction in stock will however increase the amount of cash by the same value as Horizon will assume that the stock has been sold.

So if the amount of first class stamps recorded on Horizon is manually reduced by £10, the amount of cash recorded on Horizon is automatically increased by £10.

If this reduction in stamps was incorrect (say it was done by accident), when the amount of physical cash actually held in the branch is then compared to the amount of cash recorded on Horizon, the branch will be £10 short and will be showing a loss of £10 in

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cash. In this way, the error in accounting for stamps has migrated across the accounts to manifest as a loss of cash.

However, the branch should also now be actually holding £10 more in first class stamps than that the amount of first class stamps shown on Horizon. This creates a "surplus" of stamps physically in the branch.

In this scenario, there is therefore no net overall loss. The error can be corrected by manually increasing the value of first class stamps recorded on Horizon by £10, which will then automatically decrease the amount of cash recorded on Horizon by £10 (as Horizon will assume that as there are now more stamps in the branch, those extra stamps must not have been sold). This will bring in line (or "balance") the branch's accounts recorded on Horizon with the actual cash and stock holdings in the branch.

Processing transactions on Horizon

35. In simple terms, most customer transactions are processed as follows:

- 35.1 A customer approaches the branch counter and requests certain transactions.
 - 35.2 The subpostmaster selects the appropriate product or service on the Horizon terminal and, if necessary, inputs the value of the transaction (eg. cash withdrawal from a bank account of £100).
 - 35.3 This process is repeated for each individual transaction requested by the customer (eg. at the same time as the cash withdrawal, the customer purchases £10 of stamps).
 - 35.4 Horizon groups the individual transactions together in a "basket" of transactions and displays the net amount to be paid to the customer or which needs to be taken from the customer (eg. in the above situation, the net cash due to the customer is £90).
 - 35.5 If payment is to be taken from the customer, the subpostmaster selects the payment method (eg. cash, cheque, debit card, etc.).
 - 35.6 The subpostmaster takes the payment from the customer or pays out cash to the customer as required. This final payment out or in (whether by cash, cheque or other method) records a final line to the transaction record that offsets the net value of the transactions and brings the basket total to zero. (eg. Customer buys £10 of stamps for cash. The stamps would show as a negative £10 and the cash received would show as a positive £10, thereby bringing the basket total to zero).
 - 35.7 The subpostmaster completes the transaction on Horizon which closes that basket and updates the branch's cash and stock records on Horizon (eg. in the scenario above involving a stamp purchase and cash the withdrawal, the branch's cash will have decreased by £90 and stamps by £10). The basket is also simultaneously recorded to the central data centre.
36. For many transactions carried out in a branch, the accounting process via Horizon of recording the transaction and delivering the sale or service to a customer is completed at the point of sale or the service with the customer present. For example, a banking cash

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withdrawal or a barcoded utility bill payment are completed wholly on Horizon with no related paperwork to process and no use of other terminals not connected to Horizon.

37. There are exceptions to the above due to the specific accounting requirements of certain products (eg. Lottery Game Sales and Scratchcard Packs must be transacted on the separate national lottery terminal). Horizon is then updated the next day by Transaction Acknowledgement as explained in Section XX).
38. There may also be various other steps that the subpostmaster needs to take to complete the transaction which are specific to the product in question (eg. completing and sending off various receipts and paperwork).

Big (important) sections on Lottery terminal, ATMs, Paystation still to be included

Reconciliation with clients

39. A number of the products and services available at Post Office branches are provided by third parties – see the product list at Annex 1. These third parties are commonly referred to as "clients".
40. When a client product is transacted, details of this transaction are communicated to the client. Sometimes, this reconciliation is conducted in real time, and sometimes it is conducted at a later point. Post Office is then liable to account to the client for the transaction value (or vice versa). This interconnectivity with, and the transfer of information and records to and from, clients is part of the overall Post Office IT infrastructure. Some client links are direct from Horizon and some are supported by daily or weekly batch files delivered from central Finance systems in Post Office to the client.
41. An example of online connectivity from Horizon to a client would be as follows:

Example:

At Post Office branches, a customer can deposit cash in or withdraw cash from his/her bank account with a number a major banks (eg. Lloyds, Santander, etc.).

If a customer wishes to withdraw £100 of cash from an account, the Horizon system connects to the client's computer banking system to confirm that the cash is available for withdrawal. Once authorised, Horizon will tell the subpostmaster to proceed with the transaction and to give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts on Horizon will be automatically reduced by £100 to reflect the withdrawal. This way the branch's accounts are kept in balance with the amount of cash actually on hand.

Likewise, the customer's account at the client bank will be reduced by £100 to reflect the cash withdrawal undertaken in the Post Office branch.

The branch books balance as above. Post Office obtains its money back from the relevant partner bank by way of client settlement activities administered by the Finance Service Centre (FSC).

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This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position on Horizon at the transacting branch is increased by £100, the branch holding £100 more cash on hand and Post Office making a later payment to the client bank of £100.

Associated equipment

42. Within a Post Office branch there may be various pieces of equipment that are separate from Horizon that are used to conduct specific transactions. The key pieces of associated equipment are set out below.

ATMs

43. In 2005, Post Office awarded a contract to Bank of Ireland to provide ATMs in its branches.
44. Bank of Ireland is a member of LINK (the UK network of ATM providers). It provides and installs the ATMs in branches, delivers training to branches and offers technical and some maintenance supports. It also performs the settlement of withdrawals between Post Office and customer's bank accounts. Finally, it handles customer queries about ATM transactions. Bank of Ireland provides some of these services through its sub-contractor, Wincor.
45. Post Office, through its branch network, provides space, cash, cash-loading, basic first line maintenance services and support for accounting for ATMs on Horizon (see below).
46. There is currently (end of Feb 2014) a total of 2470 ATMs in the Post Office network transacting around 149m withdrawals each year.
47. On installation of an ATM, training on operating the ATM is provided by Wincor. When a Post Office branch which already has an ATM transfers to a new subpostmaster, ATM training is provided by Post Office as part of its standard training package.
48. Each branch is also provided with a Bank of Ireland ATM Operator Manual on how to use the ATM which includes descriptions of how to load cash into an ATM, obtain the ATM totals receipts and use the ATM's cash management menu.
49. Also, each branch is provided with "Accounting Instructions for Bank of Ireland ATMs" which explains how activity on an ATM should subsequently be recorded by the subpostmaster on Horizon.
50. The cash in an ATM forms part of a branch's cash holdings but is set up as an individual line item in the branch's accounts on Horizon.
51. Each day, the subpostmaster must print from the ATM a "totals" receipt that shows the number/value of withdrawal transactions and retracted cash transactions (where a customer forgets to take their cash and it is retracted into the ATM). The figures on this receipt must be manually input into Horizon by the subpostmaster (and, in the rare circumstance of a retracted transaction, the retracted cash must be physically removed from the ATM, counted, and the amount also recorded on Horizon).

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52. Once a week, the Subpostmaster must remove and count all the cash in the ATM and manually record this figure on Horizon (in addition to recording the totals shown on the ATM receipt as per above).

Paystation

53. A Paystation is a standalone payment device that is located either behind the Post Office counter or at the retail point of a Post Office branch. It allows customers to conduct certain bill payments, E-Top ups, electricity key top ups and Quantum gas card top ups.
54. Paystation is predominantly used as a cash only payment device although it does have the facility to accept debit card payments.
55. In 2004, approximately 2000 Paystation devices were installed in selected Post Office branches, initially as a trial. The trial was extended to a full roll out across the entire branch network in 2006. The roll out resulted in 12,000 terminals being installed across all branch network. This included at least one in each branch with a few of the larger branches having more than one device. In 2013, Paystation handled 41 million transactions. Paystation has obtained the Payment Card Industry Data Security Standard accreditations.
56. The Paystation equipment in each branch consists of the main terminal along with a magnetic card reader and a barcode scanner which are provided by a separate company, Ignenico.
57. Paystation works as a simple operational interface and is activated by either a barcode scan or card swipe. The paystation machine can also be operated manually using the buttons on the machine, for example for electricity key top up. Once a transaction completes, receipts are printed for both the customer and Branch.
58. Paystation transactions usually require third party authorisation. For example, a mobile telephone top up will go from the terminal to e-pay, on to the mobile network provider who will then confirm that the mobile telephone network is correct, that the customers' handset is a prepayment telephone and issue a unique code for the customer to get credit.

[INSERT SECTION ON RECONCILIATION BETWEEN PAYSTATION AND HORIZON]

Lottery

[TO BE INSERTED]

Remittances

59. Branches send or receive cash and stock (to and from Post Office central processing centres. This movement of cash and stock is called a "remittance" (and is often referred to as "remming in" or "remming out"). Branches may also take cheques as a method of payment from customers. These are treated as a "stock item" on Horizon and require "remming out" (i.e. sending) to the cheque processing centre.

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60. Post Office monitors the cash levels of each branch. Branches are either classed as “cash surplus” or “cash deficit” in terms of cash management. Those branches that are classed as cash surplus receive more customers who make deposits (eg. by making cash deposits to bank accounts or by buying products with cash) than customers who require cash withdrawals. For example, cash surplus branches tend to be in areas where there are lots of business customers making large deposits but not many customers making withdrawals. These branches do not require cash remittances to be sent to the branch from Post Office as they will have a net inflow of cash from customers. These branches are however required to return cash to their nominated Post Office cash depots via a Cash Vehicle in Transit (a secure means of transporting cash) in order to prevent the branch holding too much cash on site. Post Office cash depots are placed in geographical locations around the UK and each branch will be “tagged” to a particular depot.
61. Cash deficit branches are those where the money deposited by customers to the branch does not cover the amount that the branch has to pay out. These branches rely on Post Office cash depots to send cash to the branch in order to ensure that there is sufficient cash in the branch to meet its needs.
62. Post Office’s Retail Cash Management team are responsible for monitoring the cash levels within the branch network to ensure that branches have enough cash to serve customers and to support effective working capital management for the network. All this cash is owned by Post Office.
63. The decision on how much cash a branch needs to rem in or out is determined by Post Office’s Flexible Planning System which is an IT SAP-based software tool used by the Retail Cash Management team. In essence, it compares the cash declaration figures that are entered into Horizon by subpostmasters and against the sales (receipts and payments) information. It also takes account of the average transactions occurring over the past 6 weeks trading history to identify how much cash the branch should return or send back on their next scheduled cash delivery. This information is communicated to subpostmasters via Horizon which will show a Flexible Planning Advice Note. The subpostmaster has the option to amend or cancel the cash that is planned to be returned or sent to the branch by contacting the Retail Cash Management team.
64. Where cash is to be remmed out to Post Office cash depots, the branch is responsible for placing the correct amount of cash into a remittance pouch, entering the amount that is being remmed out onto Horizon and then either handing the remittance pouch to the Cash in Transit Driver, or sending it back to Post Office via Royal Mail Special Delivery. This will decrease the amount of cash recorded in the branch accounts on Horizon.
65. Where cash is remmed into a branch, the cash remittance is sent by Post Office to the branch either via a Cash in Transit Driver or via Royal Mail Special Delivery. The branch is responsible for checking that the remittance pouch contains the amount of cash stated on the remittance and then logging the receipt of cash on to Horizon. This will increase the amount of cash recorded in the branch accounts on Horizon.
66. Royal Mail Special Delivery is only used, on a risk assessed basis, for lower value remittances and, for example, for remittances to Scottish Islands where ferries and logistics constraints prohibit the use of the large, heavy armoured cash delivery vans.
67. Cheques are required to be remmed out daily by branches. This is to enable overnight processing and next day “clearing” of the cheque by the relevant bank. Friday and Saturday cheques should be sent together as Saturday is not a “banking day”. There are

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dedicated Horizon processes, batch control vouchers and special envelopes which branches should use as part of standard end of day mail collections.

68. Post Office contracts with a banking industry cheque processing organisation who validate cheques received highlights any anomalies to the FSC, submits the paper cheques and provides data to the FSC about cheques successfully processed and about cheques that bounced ("unpaid cheques").

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Branch reporting and management

Reporting

69. Subpostmasters are required to run and review in-branch reports to ensure that the branch is functioning effectively and to allow Post Office to monitor cash and stock levels against its records. These include:

- 69.1 **Daily Cash Declaration** – it is a procedural requirement for staff at each branch to count and declare the cash stored in each stock unit at the end of each day (for explanation of stock units please see paragraph xx). The actual cash on hand is input onto Horizon by the subpostmaster or his/her assistants. Horizon then shows any "discrepancy" between the cash on hand and the amount of cash that should be in the branch in order for the branch to balance.

If a discrepancy is identified then the cash should be recounted and the paperwork re-checked. If there has been an error in the counting of the cash, then the cash should be re-declared. It is also best practice to open and check any stock and cash pouches made up ready to return to Post Office in case there has been any error when filling the pouches.

There are a number of tools on Horizon that can assist subpostmasters with tracing or identifying discrepancies. For example, transaction logs can be run which show the transactions that have taken place; these logs can be searched using parameters such as product type, user and time of the transaction. Event logs also provide information about user activity and a balance snapshot shows what Horizon believes is the state of the branch accounts at that point in time. Therefore subpostmasters can ascertain what transactions have taken place in branch and the amount that has been recorded against that transaction. Pre Horizon Online (pre 2010) Horizon reports were available in branches for 42 days. Now these reports are available in branch for 60 days.

It would be worth confirming whether the tools referred to in the first sentence are those that have always been in place and available to SPMRs.

- 69.2 **Weekly Balance** – Post Office policy recommends that every week, a branch undertakes a full cash and stock count. The actual amounts on hand of cash and stock can then be compared to the figures recorded in Horizon. This helps the branch to identify and correct any discrepancies.

In the event that a discrepancy is found on a weekly balance, the discrepancy can be declared. If the discrepancy is declared, it will be transferred into a "suspense account" until it is resolved. This is a separate line in the branch accounts which records any losses or surpluses so that the daily trading accounts can be put into balance. Amounts are typically held in suspense for a period of time to allow the subpostmaster time to try to resolve the discrepancy. On weekly (Balance period) rollovers individual stock units (SU) commit losses or gains which move the cash values into the Discrepancy account. This results in a clear balance in the stock as the next (weekly) balance period commences.

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The Daily Cash Declaration and the Weekly Balance are tools for the subpostmaster to use to manage their branch. Declaring a loss or surplus through either of these reports does not trigger any action by Post Office.

- 69.3 **Monthly Trading Period Rollover** – This is similar to the Weekly Balance but is mandatory every month. It requires any discrepancies (including those put into suspense during the month) to be resolved. This process is also called "rolling over" or the "end of trading period" process. At the end of the process, the subpostmaster is required to print off and sign a "Branch Trading Statement". This statement confirms that the cash and stock shown in the accounts reflect the cash and stock held in the branch (with any discrepancy having been declared – see below).

Contractually subpostmasters are required to complete a monthly balance. If a branch does not roll over into the next trading period when they are scheduled to do so Post Office will contact the branch to rectify the situation.

In order to address discrepancies or transaction corrections, the subpostmaster will follow the processes set out at XX below. This allows an issue to be immediately resolved or to be further investigated by contacting Post Office's Finance Service Centre ("FSC"). In the latter, a disputed item remains suspended until the Post Office has investigated the matter.

- 69.4 **Cut off routines** - Mandatory daily and weekly "cut off routines" are in place in to enable branches to validate transactions and to ensure that the paper records match Horizon. This also assists to identify errors. For example, validating the physical cheques held in branch (as against Horizon's records) to send to clearing or banking summaries to send to Santander. Validations of physical paperwork against Horizon records can detect errors or omissions, for example, if a cheque transaction has incorrectly been recorded as a cash transaction on Horizon.

Resolving surpluses or losses of cash or stock

70. There is no requirement for subpostmasters to separately calculate losses or gains. Branches are required to accurately report the actual cash and stock holdings on hand and Horizon then calculates any loss or gain when compared to the branch's accounts.
71. If a loss or gain is shown then a subpostmaster may take some or all of the following steps to remedy that situation.
72. For stock issues, they should process a sale or sales reversal to correct the volume of stock shown on Horizon, making sure it balances to the volume of stock held in the branch.
73. For a surplus of cash (when the cash on hand in branch is more than the amount of cash recorded in Horizon), the subpostmaster removes sufficient cash to bring the branch back into balance. It is common practice for subpostmasters to keep surplus cash in a separate location (like the retail business safe) until their investigation into the gain is completed and /or a transaction correction is received.

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74. If following the monthly rollover there is a shortage of cash (when the cash on hand is less than the amount of cash recorded in Horizon), Horizon presents the subpostmaster with three options:
- 74.1 **Make good** – the subpostmaster can elect to put cash or a cheque into the branch from their personal funds to make up the shortage.
 - 74.2 **Settle centrally and pay** – the shortage is transferred to the subpostmaster's personal account with Post Office. The cash figure on Horizon is reduced to bring it in line with the actual cash on hand at the branch. At this point the subpostmaster owes the cash loss to Post Office as a debt. This debt can be repaid by either (a) a direct payment from the subpostmaster to Post Office or (b) by deductions from the subpostmaster's remuneration.
 - 74.3 **Settle centrally and dispute the shortage** - if the subpostmaster believes that the shortage was not his/her fault or could be resolved through other means (see below), then the debt will be suspended to allow time for the shortage to be investigated and remedied. The subpostmaster disputes a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the Finance Service Centre ("FSC") at Post Office to have the debt suspended pending an investigation. This option has been available to subpostmasters since August 2005.
75. Prior to 2005, branches were required to balance weekly and produced a Horizon generated "Cash Account". Discrepancies (shortages and surpluses) were, with authorisation from Post Office, placed in the branch "suspense section" of their cash account. This discrepancy was held until enquiries into the discrepancy were concluded and was then removed by the issuing of an error notice (now known as transaction corrections) by Post Office or by the subpostmaster putting the money into the branch to cover the loss or removing the value of the gain from the branch to balance the account. In effect, the process both pre and post 2005 was similar in effect, in that subpostmasters could dispute losses and surpluses at the end of trading periods, albeit that the process for doing so was slightly different.

Transaction corrections

- 76. The FSC (often referred to as "Chesterfield" by subpostmasters because of its geographical location) is Post Office behind the scenes account processing centre. It provides daily services to clients, branches, multiple partners and customers.
- 77. The FSC is the originator of TCs. These are sent by the FSC to branches when errors are found which have not been resolvable by the branch themselves. Even if the branch's accounts are balancing (ie. there is no discrepancy between cash and stock on hand and the cash and stock levels on Horizon), it may be that the branch has processed transactions erroneously or in a way that causes a Post Office client to refuse to reconcile the transaction with Post Office, thereby causing a discrepancy.
- 78. TCs can be issued for a wide range of issues resulting from matters - such errors or omissions in data entry like mis-keying or forgetting to enter the date. In 2012/13 the most common reason for TCs being issued to branches was due to errors in "cash remittances from branch".

Example:

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A branch records remitting out £100 in cash and sends the cash pouch to the cash centre. However, upon opening the cash pouch at the cash centre the pouch contains £110. This creates a discrepancy at the cash centre and (assuming the branch is otherwise balancing) the branch will report a £10 shortfall during the next cash declaration. The FSC will then raise a credit TC to the branch. When the branch formally accepts the TC, it will have the effect of reducing the reported Horizon cash balance by £10 in line with the reality of cash on hand. The double entry to this is to increase the values recorded as remitted out. The branch should then balance in respect of this specific incident.

79. Due to the fact TCs are often generated due to a discrepancy between Horizon and a client's records, there can be a time lag between the error occurring and the TC being issued.

Example:

A customer deposits £100 into their bank account but, through a keying in error, the branch only records a deposit of £10 on Horizon.

In this scenario the records on Horizon and at the client bank will reconcile as both will show a £10 deposit. The branch will have a £90 cash surplus (as the branch will have taken £100 from the customer but only recorded receipt of £10 in Horizon). The customer may raise a complaint with Post Office directly or could raise the complaint with his/her bank who will then contact Post Office.

80. The time taken to identify the error is therefore sometimes outside of Post Office's control. When a TC is sent to a branch through Horizon, the branch is provided with hardcopy evidence of how the error has occurred or contact details for further information to be provided. TCs are often preceded by enquiries with branch, particularly if a large number of TCs are being sent to that branch. For example, the FSC can make interventions by letter and telephone to obtain further details.
81. Branches are required to accept a TC through Horizon before completing their Branch Trading Statement. The branch does not have to accept the TC on receipt (although it may be prudent to do so) and can instead print the transaction correction narrative off and take the necessary action within the days remaining until that trading period ends.
82. Processing a TC often results in an adjustment to the cash or stock position at the branch within the branch's accounts. TCs can debit or credit the branch's cash figure in Horizon. It is, however, important to note that this often (as the name implies) corrects the recording of the transaction such that the reported balance in Horizon will align with the physical cash handled in the transaction.

Example 1:

If a branch processes a bill payment of £100 as £10 on Horizon, the branch would see a cash gain of £90. The customer receives a bill reminder that full payment has not been received and contacts Post Office to resolve the issue. The error is identified and a Debit TC is issued to the branch in the next trading period, because Post Office will need to pay an additional £90 to the customer's service provider. The branch processes the Debit TC which increases the cash position on Horizon, thereby creating a £90 shortfall against the cash on hand. This shortfall however sets off against the corresponding gain in the previous trading period.

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Example 2:

A customer presents a Transcash deposit slip to make a bill payment but it is then established that an appropriate method of payment is not possible (e.g debit card is declined) so the transaction is not recorded on Horizon and no cash changes hands. However, the branch incorrectly retains the deposit slip and does not follow the end of day procedure to compare the slips on hand with the Horizon record of slips received that day. The failure to conduct this check causes the subpostmaster to send the slip to Santander who administer Transcash bill payments taken through Post Office branches, who then process the bill payment (ie. money is paid from Post Office's account to the customer's service provider's account).

When Post Office later reconciles the bill payment against the Horizon records, there will be no matching payment record in Horizon and a TC will be sent to the branch. If the branch accepts the TC, this will alter the branch's cash position (so to reflect the subpostmaster's error) and the relevant cash should be put in the till at that point. If the money is not put in the till, then there will be an equivalent shortage at the end of the trading period.

In example 2 perhaps specify or give an example of why "an appropriate method of payment is not possible" i.e. such as a card decline

83. TCs can be disputed with the FSC. If the TC dispute is upheld a compensating TC will be issued to the branch. If it is not upheld a written appeal can be made to the relationship manager in FSC who will review the case and make a final decision. Any payment required from the subpostmaster will be suspended until the review is completed.
84. In the financial year 2012/13 84,217 transaction corrections were issued, for errors caused by branches, with an average value of around £100 credit each. This is against a backdrop of an average 2.5 billion transactions being completed on Horizon each year.

Are these statistics across all locations and even though the average might be £100 it would be good to give more details of the range of values.

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Training

This whole description of the training and support currently offered and the history of the changes does not seem to tie in with the experiences reported by most SPMRs so the presentation will need to be considered.

Standard training

85. New subpostmasters receive training prior to and after taking up their position in branch. Training covers matters such as how to transact products and services; reconcile the day's transactions; remitting in and out cash and stock; despatching cheques to processing centres. Subpostmasters are also trained on how to balance the branch on a weekly basis and roll over in to the next balancing period. As part of this training, subpostmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise, as well as how to accept discrepancies, make good any losses and gains, and how to raise issues about errors/discrepancies.
86. Examples of the types of training Post Office has offered in the past are as follows:
 - 86.1 **2001 – 2002** classroom training was offered to new subpostmasters followed by 10 to 11 days of onsite training and support. This would be followed with one day of "follow up balance" support which would include supporting them in the completion of their office balance.
 - 86.2 **2003** – between 5 and 10 days of classroom training was offered to new subpostmasters (the training being optional) and 6 to 10 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance support.
 - 86.3 **2004 – 2005** - between 5 and 10 days of classroom training was offered to new subpostmasters (the training being optional) and 5 to 10 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance support.
 - 86.4 **2006** - between 5 and 10 days of classroom training was offered to new Subpostmasters (the training being optional) and 6 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance support.
 - 86.5 **2007 – 2011** – New subpostmasters received 5,8 or 10 days of training on foundation, sales and other specialised modules. 6 days of onsite training and support was provided, followed with one day of follow up balance support. In 2007 following a pilot scheme follow-up telephone calls were introduced at intervals of 1 month and 6 months after the branch was taken over by the subpostmaster, with a one day site visit taking place 3 months after the branch was taken over.
87. A subpostmaster may choose not to attend training or only parts of a training session if, for example, he/she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training is provided it is up to the subpostmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is up to the subpostmaster to ask for further training and/or assistance if it is required (please see paragraph **xx** below for details of the support available to subpostmasters).

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88. In 2012, as part of the wider steps being taken to “transform” the network, Post Office tailored its training depending on the specific role being undertaken and rolled out further training depending on, for example, the experience of those specific subpostmasters, the type of contract they would be operating and the number of employees they may have. The precise training given to subpostmasters would therefore depend on a number of factors such as whether the subpostmaster is completely new to the role, whether he/she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (ie. Mains or Local) and the types of products and services transacted.

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Support for subpostmasters

NBSC

89. The Network Business Support Centre ("**NBSC**") was established on 15 December 1999 to help and support subpostmasters and their staff with customer transactions and navigation of Horizon. NSBC can support subpostmasters with a wide range of issues such as providing assistance with transactions carried out through Horizon, navigation, how to address and deal with mistakes and any issues arising out of the weekly branch trading statement.
90. When NBSC came into being it was open 8am-6pm Monday to Friday (except for Wednesday when it was open until 10pm) and on Saturdays it was open 8am until 5:30pm. Due a decreasing number of calls, caused mainly by the introduction of Branch Trading on monthly basis and balancing typically taking less time on Horizon than it had previously, Wednesday's opening hours was reduced to 8pm in 2006. Saturday opening hours were also amended in 2008 to 8am-2pm (again due to low volume calls).
91. NBSC is now open 6.00am to 11.00pm Monday to Saturday and 7.00am to 5.00pm on Sundays and Bank Holidays. Post Office branch opening hours are extending as part of Network Transformation and as such NBSC has extended its opening hours to support the branch network.
92. New NBSC staff receive a 4 week training course and 2 week floor support. Ongoing training is provided to NBSC staff on new products and services as they are introduced. Through quality monitoring and coaching, Post Office identifies any gaps in training and provide further support to advisors.
93. Post Office currently employs 70 people to sit within NBSC and receive calls, undertake second line support (where a query cannot be addressed during the telephone call, second line support will liaise with Post Office product teams to source the answer) and carry out administration roles. NBSC staff are experienced in Horizon and how branches operate. NBSC receives around 1,700 calls a day (based on data obtained for 2012/13).
94. NBSC has always and continues to operate a two tier escalation process. If the NBSC advisor is unable to resolve the query/issue with the caller, the call is escalated to tier 2 where more expert advice will be provided. If this still does not resolve the issue the Branch Support Team will decide if further training or face to face branch support is required. The Branch Support Team are an administration team who provide further tier of support to arrange training or intervention to assist branches outside of NSBC's remit.
95. NBSC performance is measured on the time advisors take to answer the phone, referred to as a "Grade of Service". The target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (i.e. where the caller hangs up before reaching an advisor). For complaints NBSC's target is to resolve 95% of complaints within 10 working days.

Horizon Service Desk

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96. In addition to NBSC, subpostmasters can access Horizon On Line Help and call the Horizon Service Desk (**HSD**).
97. HSD deals with technical issues concerning Horizon, for example, if Horizon appears to be "offline" or there are log-in issues. In the event that a technical issue cannot be resolved over the telephone HSD can request an engineer to attend the branch to investigate the issue further.
98. Subpostmasters can directly contact HSD. A small number of calls by subpostmasters are made to the wrong helpline, for example, if a subpostmaster contacts HSD about navigation issues, HSD will transfer the call to NBSC. Approximately 5/6% of calls received by HSD are misdirected calls (i.e. do not relate to a technical issue) and are transferred to NBSC. Approximately 2% of calls received by NBSC require transferring to HSD because they relate to a technical query. The percentage of misdirected calls is higher to HSD because often subpostmasters believe their query is technical without realising it is human error causing the issue.

Field Support

99. Post Office has a large network of branches and subpostmasters which is currently managed in the following way:

The Top 2000 branches, which are usually the largest branches with the highest sales potential, are managed by an Area Sales Manager ("**ASM**"). These branches receive face to face visits from the ASM on a regular basis (at least monthly), primarily to assist with improving business and sales performance, but other non-sales issues are also addressed if required. Whilst the ASM is trained to be a sales coach, they are not considered by Post Office as "trainers" and would go to other "expert domains" such as the Field Support Team to obtain assistance for subpostmasters with, for example, balancing issues and using Horizon (see paragraph xx below). The subpostmasters of these branches are also invited to attend Quarterly Business Up-dates where a range of topics are discussed.

- 99.1 **The Next 2000** branches, which are selected either because they have the sales potential or because the geographical location is such that it is not cost effective to be managed by an ASM as part of the Top 2000 branches (for example branches located in remote parts of Scotland, Devon and Cornwall), are actively account managed from a sales perspective by the Telephone Account Management team. Face to face visits do not routinely occur (unless there are, for example, specific issues to address), but the Telephone Account Management team make regular calls (usually every 2 weeks) to the branch to monitor sales progress. The team can also refer branches to be visited by a Regional Sales Trainer who can visit to coach the subpostmaster and their staff on sales.
- 99.2 **Remaining branches** These branches are classed as "Branch Support" branches. They are not visited pro-actively and do not have a manager assigned to them. Their first point of contact is NBSC where they can seek assistance with issues such as balancing queries and resolving mistakes. If NBSC cannot resolve the query, there are a number of escalation points depending on the nature of the issue and, ultimately, if it cannot be resolved over the telephone a visit by a Field Support Advisor (see paragraph xx below) can be arranged.

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Post Office has a dedicated Field Support Team which is responsible for induction and on-going transactional training for all subpostmasters. Currently the team consists of 227 Field Support Advisors (“FSA”) and 18 Field Team Leaders (“FTLs”). FSAs are multi-skilled advisors who provide support to the network of branches. This includes delivering training, dealing with subpostmaster queries and auditing.

100. The team is responsible for matters such as:

100.1 Delivering classroom training to all new subpostmasters, who are going through the NT Programme. This training takes place before a new subpostmaster starts work in the branch and further detail is set out at paragraph xx.

100.2 Training on site following a branch transfer. FSAs will attend the branch for a number of days after the transfer and will cover a range of topics so that the branch can operate effectively. This will be followed up with site visits, telephone calls and an audit.

100.3 Requests from branches for remedial training from FSAs throughout the year. This training is delivered as and when requested on a wide range of topics such as ATM accounting, DVLA transactions, balancing issues and unexplained losses. The team received 863 requests for extra support in 2013. Generally the subpostmaster will receive the training and the subpostmaster is then responsible for training their own staff. However, each request for training is considered on a case by case basis and Post Office endeavours to provide the best support necessary to address the issues raised by the subpostmaster.

Is there data on the number of requests made in earlier years?

100.4 Undertaking Compliance and Financial audits which also includes providing further training to subpostmasters on matters that arise out of any issues identified by the audit. In 2013 there were over 3,000 compliance audits undertaken and cash and stock checks were completed in 2,873 Post Office branches.

101. The Field Support Team is not the only team within Post Office which provide training and support, either on a face to face basis or remotely via the telephone, for example:

101.1 **Mails Development Managers** were established in 2010 to visit branches which receive high volumes of mail. They train these branches on products and sales to increase business growth in this area.

101.2 **The Branch Standards Team** was established in 2009 and is a telephone-based intervention team. The team contacts branches regarding a wide range of performance issues. Whilst the purpose of the call is to notify the branch of any errors, they also ensure that the branch knows the correct procedures to follow. If the branch requires further support at any time, the team request a visit by an FSA.

102. There are also a number of teams across Post Office who come into contact with subpostmasters (such as product specific teams like the national lottery team) and may feel that a visit or further training would be beneficial for support. These teams can request further visits and training for subpostmasters through the Branch Support Team who will decide the most appropriate resource to resolve the issue.

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103. Post Office has gone through a number of structure reviews which have influenced the support Post Office provides to subpostmasters and their branches. As a result, Post Office's approach to structuring its agency relationships with subpostmasters has changed over the years, for example:

- 103.1 **Up to 2005** - branches were either designated Urban or Rural. Each Urban branch and the largest of the Rural branches was assigned a Retail Line Manager (each Retail Line Manager would manage around 40-60 branches). The smallest of the Rural branches would be managed by a Performance Advisor (each Performance Advisor managed approximately 100 branches). Both Retail Line Managers and Performance Advisors were responsible for performance. The Post Office training team which sat within Post Office's HR department was responsible for matters such as transactional training.
- 103.2 **2005-2006** – the network of subpostmasters was operated under a structure of Diamond, Platinum and Gold. This structure was known as a Sales and Service structure. Most branches operated under the Diamond or Gold network. The structure had a series of Sales Managers and also had Area Performance Managers. Again, most branches had an allocated manager who would visit and the training team were an extra resource to use for matters such as transactional training.
- 103.3 **2006 – 2008** – in 2006 there was a full review of Post Office's structure. Sales Managers were replaced by either Commercial or Community Business Development Managers ("**BDM**"). Each branch had a BDM assigned to it. In the Commercial network, the BDM would manage about 40 branches and in the Community network about 100 branches. The Commercial Network concentrated largely on sales and the Community network was responsible for picking up non-sales issues. The Branch Support Team was also established to assist with sales issues. It was also at this point that the Training team were renamed Network Field Support Advisors.
- 103.4 **2008** - the financial audit team merged with the Network Field Support Advisor team so Support Advisors would conduct both training and audits in branches.
- 103.5 **2009** - in around 2009 Post Office took the decision to remove the BDM role and the Area Sales Manager structure was created and, as a result, if a smaller branch required a site visit it would need to be requested from NBSC.

Auditing

104. In order to monitor and validate performance Post Office will often conduct audits of branches. This allows Post Office to assure and verify its assets which are held in branches and to ensure compliance with regulatory and business requirements.

105. Audits can take place:

- 105.1 when a risk at a branch has been identified (eg. the branch is continually suffering shortfalls);
- 105.2 on the transfer of the branch to a new subpostmaster (a further audit will often take place 6-9 months after the date of transfer); or
- 105.3 following a robbery or burglary.

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106. Audits also take place when a handover of the branch takes place or a new subpostmaster is appointed. For example, on the day of transfer to the new subpostmaster an audit is arranged. The outgoing subpostmaster completes a final balance; the auditors check that the cash and stock on hand is correct as they would in any other audit and the incoming subpostmaster who has been present throughout is then asked to check that what they are accepting as their opening balance ie. cash and stock on hand is correct. This is then transferred to the new subpostmaster and he signs to confirm receipt.
107. As it is not possible for Post Office to visit and audit every branch each year, it also undertakes random sampled audits whereby branches are selected at random to be audited. Whilst this has the benefit of validating the stock and cash held within a branch and ensuring Post Office's systems and practices are being adhered to, it also assists Post Office with risk profiling e.g if 5% of branches randomly selected show a particular discrepancy it could be projected that Post Office is exposed to that discrepancy across 5% of its branches.
108. Whilst the precise nature of the audit will depend on the reason for the audit primarily an audit consists of an inspection of the cash and stock held by the branch. This may be followed by a Compliance Audit to ensure regulatory and business requirements are met. Audits will include checks such as:
- 108.1 for branches with paystations or lottery terminals, ensuring any overnight Transaction Acknowledgements (an automated way to account for transactions carried out for clients such as Camelot, see section [xxx]) have been properly accepted;
 - 108.2 checking the cash declaration for the previous trading day;
 - 108.3 counting and recording the cheques held in the branch against the record maintained on Horizon;
 - 108.4 verifying the currency held in branch; and
 - 108.5 counting and recording the amount of stock held in branch against the record maintained on Horizon.
109. The results of the audit are discussed with the subpostmaster and, in the event of financial irregularities, may result in the subpostmaster being suspended or being asked to "make good" the loss i.e. to pay the loss to Post Office from the subpostmaster's own funds. Alternatively, transaction corrections may be required (see section XX above) and if compliance issues are identified this may be followed up by the Branch Standards Team who will identify and assist the subpostmaster in rectifying the compliance issues. If an issue cannot be rectified by the Branch Standards Team, the Team can arrange for a Field Advisor to visit the branch and/or for further training.

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Branch errors

110. There are a variety of reasons why a branch may encounter a discrepancy between the amount of cash and stock on hand and the amount of cash and stock recorded on Horizon – this situation is commonly referred to as a "balancing discrepancy".
111. Below are number of situations in which a balancing discrepancy can occur due to simple errors in the operation of a branch. It should be noted that some of the situations below may cause a gain for a subpostmaster or only cause a temporary loss. However, this can cause real losses to be hidden:
- 111.1 If an error causes a surplus of cash in the branch, this may off-set a smaller loss caused by another error. In that scenario, the loss error may not be revealed, as the overall branch accounts will balance or show a surplus; or
- 111.2 If a surplus error occurs in one month but is later discovered and corrected via a TC in a subsequent month, then the TC will have affect against that later month's account and the accounts for the later month may show a loss even though all transactions in that later period have been conducted correctly.

Example:

A branch suffers two errors, one creating a £100 gain and another causing a £100 loss. At the end of the trading period, the branch's accounts will balance as the two errors effectively cancel each other out for balancing purposes.

If in the next trading period the surplus error (i.e. the gain of £100) is discovered, a TC will be sent to the branch which increases the amount of cash recorded in the branch accounts. If all the remaining transactions throughout the rest of that trading are conducted correctly the branch will still show a loss at the end of the later trading period due to the TC. Therefore, whilst the loss of the branch shows in the current trading period, the error which caused the loss occurred in the previous trading period.

112. A number of the errors below will only be visible to those working in the branch. It is often not possible for Post Office to identify these errors remotely as Post Office only has access to the transaction information recorded in Horizon by the branch staff (which as described below may not accurately record the actual cash and stock movements in the branch). When discrepancies occur Post Office looks to find possible explanations other than those below. If no other source of the discrepancy can be found then, by a process of elimination, the discrepancy will have most likely occurred through an error in the branch.

This is an important section, which demonstrates that the process of locating the source of errors is a very difficult one, not helped by the limited availability of the audit trail

Miss-key

113. A miss-key is the term used when staff enter the wrong value of a transaction into Horizon compared to the actual amount of the transaction. The difficulty with a mis-key error is that only the employee who conducted the transaction will be able to prevent or retrospectively identify this error.

Example:

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A personal banking customer may wish to deposit £1000 into their account and the person serving the customer mistakenly enters £10,000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.

In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank who in turn contacts its customer. The customer will be asked to confirm the amount deposited at the branch. However, the receipt printed from Horizon and provided to the customer will show a deposit of £10,000 and, therefore, the rectification process relies largely on the actions of the customer and their bank.

This is the point referred to by Ron and demonstrates how a customer might benefit from a "windfall" and not report it leaving the SPMR with the burden of bearing the loss

Mixing retail and Post Office business

114. Generally, a branch must keep physical separation between retail and Post Office cash. Mixing these two sets of cash can lead to Post Office cash being lost to the retail business as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

Errors in cash handling

115. At the end of a customer transaction, payment needs to be made to or received from the customer. Even if the transaction is correctly recorded on Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to the customer.

Example:

A business banking customer may present documentation to deposit £1000 into their business banking account. If at the end of the transaction £1000 in cash is given to the customer instead of taking £1000 in cash from the customer there will be a shortage to the branch of £2000, made up of the deposit entry £1000 being correctly input onto Horizon (Horizon then expects to receive £1000) and the settlement out to cash of a further £1000 which will reduce the cash in branch.

This point raises the rather unpleasant possibility of a member of branch staff colluding with a customer with all of the following consequences for the SPMR

Accidental loss

116. Losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops which is snatched by a customer without branch knowledge.
117. In the first two of these examples the honesty of the finder and the ability to identify the money as coming from the branch is required to return the money to the branch.
118. In the third example unless the person is caught in the act of snatching the cash it is probable that the loss would only be discovered at the end of day cash declaration or at the time of completing the Branch Trading Statement. The branch staff may be unaware of how the loss had occurred.

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119. If cash is temporarily mislaid one day and found the next, it can lead to related shortages and surpluses on different days or in different trading periods. In the midst of many other activities, branches may not associate the two and may dispute part or all of the outcomes.

Miscounting cash on hand

120. Cash must be physically counted at the end of each day and when rolling over at the end of a trading period. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether.
121. Another instance of where this can happen is where a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. A few Post Office products, such as lottery scratchcards, are permitted to be sold from the retail business. However, it is the subpostmaster's responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.
122. Cash remittance pouches that have also been made up in preparation for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure (as it is deemed to have been remitted out of the branch even if the pouch has not yet been physically collected) and, therefore, the branch could be declaring a gain or inadvertently hiding a loss.

Cash remittance errors

123. If there is mistake made between the amount that is remmed in or out and what is received or sent by or to the Post office cash centre, then this will lead to a branch discrepancy. However, cash received into and out of the cash centres is recorded and monitored on CCTV. When a pouch is received from a branch the handling clerk at the cash centre opens the seal and empties the contents onto their workstation which is monitored by CCTV. This is the same for pouches that are made up in the cash centres and sent to branches.

Example:

If a branch has bagged up £25,000 to send to the cash centre but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000. If the cash has left the branch then the mistake cannot be rectified by the branch. The cash will be counted at the cash centre and a Transaction Correction will be sent to the branch to rectify the branch account.

Stock remittances

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124. Branches receive their stock (postage, MVLs etc) from Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking that the amount of stock received matches the advice note delivered with the order and remming the stock onto the correct lines in Horizon.

This point has been raised by a number of SPMRs as being impractical to do without effectively closing the branch.

125. Branches are required to return some value stock items back to Swindon. This is usually connected to Special Stamps which should be withdrawn from sale. The branch has to rem out the stamps on Horizon and return the amount via the same method as receipt.

Cheque handling

126. Branches can accept cheques as payment for certain products and services. Customers can cash personal cheques up to a certain amount or accept deposits for certain partner banks. There are set procedures that must be followed in branch at the end of each day to ensure that the cheques are handled correctly, the customer's bank account is debited accordingly and Post Office can settle the client accounts. Typically there are two scenarios where subpostmasters do not follow the operational process which can cause a loss:

- 126.1 A cheque has been accepted for a non-cheque acceptable product (i.e. foreign exchange sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. This is because the subpostmaster may have taken the cheque for payment from the customer, but because the product did not permit cheque payment, Horizon would not present this option on the counter terminal. The subpostmaster would therefore have to erroneously select another payment option (eg. cash).

- 126.2 The method of payment has not been correctly recorded on Horizon.

Example:

If a cheque is presented by a customer to pay for a transaction, but the transaction is accidentally settled as a cash transaction, the value of cheques held in the branch recorded by Horizon will not match the value of the actual cheques held in the branch. At the end of each day a cheque listing is printed from Horizon. This printout should be checked against the cheques held in branch and if it does not match, Horizon should be corrected before remitting out the cheques to Post Office. After remitting out the cheques, a further cheque listing should then be printed to confirm that no cheques are held in branch. If a branch has not ensured that the cheques in branch match Horizon's record before remitting out the cheques, then the cash in the branch will show a shortfall and the amount that is received at the cheque processing centre will not match the amount that has been entered onto Horizon. This is because Horizon calculates how much cash should be in a branch based on the "cash" settlement option that is pressed at the end of each transaction. Therefore, if the "cash" option has been pressed instead of the "cheque" option, Horizon will expect there to be more cash in the branch than is actually held. This may generate a Transaction Correction to correct the account unless the branch reverses the transaction and records it accurately as a cheque transaction.

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127. Branches must follow a process to ensure that the amount of cheques recorded as held in branch balances to zero. This process is called "cutting off". If the cheques are not "cut off" at the end of the day the cheque listing on the following end of day procedure will not agree with the actual value of cheques held in branch. This is corrected in exactly the same way by amending the "cheque on hand" figure to show the correct value of the actual cheques held in branch. The value of the cheques in branch is then sent out before a further cheque listing to confirm a zero entry is printed.
128. It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, Post Office will absorb this loss and not pass it on to the subpostmaster. In the vast majority of cases, Post Office either mitigates the loss caused by a lost cheque by obtaining a replacement cheque from the customer or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

Connectivity

129. Each Horizon terminal requires a telecommunications signal in order to record transactions to the central Post Office data centres. Each branch uses the signal to communicate with a data centre where all transaction data is sent, and this in turn communicates with Post Office's clients (such as banks, DVLA and local authorities) to complete transactions. The router in each branch which communicates with data centres needs to be connected to both a power supply and a communication channel to complete customer transactions. Connectivity issues can arise for example when there is an interruption in power supply or a breakdown in the communications line that is provided by the subpostmaster
130. When serving a customer, transactions for certain products send information directly to data centres during the transaction i.e. moneygram, online banking, postal orders (known as recoverable transactions), and some where no interaction with the data centres happens until the customer transaction is completed on Horizon i.e. mail transaction, automated bill payments (known as non-recoverable transactions).
131. If there is an interruption to the power supply during a customer transaction, for example, a power cut due to severe weather, the Horizon user will be prompted, once the system is reconnected and the user is logged back on, with a message containing instructions on how to recover the interrupted transaction. The message explains whether the customer's transaction was completed and whether any payment needs to be received or made. The steps which need to be taken (as directed by Horizon) will depend on whether the transaction is recoverable or non-recoverable.

In light of comments from a number of SPMRs this section might be worth confirming

132. Similarly, if there is an interruption to the communication channel, for example, a telephone line cut and/or a failure to connect to the mobile backup device during a customer transaction, Horizon will prompt the user with an on-screen messages explaining what to do to and whether to cancel or retry the transaction.
Perhaps more explanation of how the back up mobile device operates would be helpful here.
Also would it be better to state that "Horizon will try to prompt the user." rather than "will"?

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133. If the Horizon user does not follow the recovery instructions correctly, this could result in a balancing error as well as having a negative impact on the completion of the customer's transaction.

We need to understand whether the intended screen instructions will always reach the screen and are there long enough to be read by the counter clerk so some more work might be required here.

134. Fujitsu proactively monitor the primary and back-up connectivity between branches and data centres. If Fujitsu is alerted to a connectivity issue it will investigate and resolve the issue. As a result, Fujitsu will not wait for the branch to contact Post Office to raise an issue about connectivity - as soon as an issue is detected it will seek to resolve it.

Transacting from the wrong stock unit

135. Horizon has the capability to create what Post Office call stock units, which in effect are virtual tills. There are no mandatory business requirements for how many stock units a branch has to have or they are physically deployed. Basically, the cash and stock for a branch can be divided into a number of stock units for members of staff to serve customers from. Some branches operate on "individual" stock units. This means that cash and stock is transferred from the main branch stock to the individual stock unit. The person allocated to this stock unit normally has a separate drawer in which to store cash and stock and they are responsible for balancing that particular stock unit. When branches have balancing problems, it is normally recommended to adopt this approach so miss-balances can be identified to specific individuals. Some branches operate "shared" stock units. In effect, this means that all the branch staff serve from one pool of cash and stock.
136. When a member of staff within a branch is serving a customer they log onto Horizon with their own user ID and password and tag themselves to a stock unit containing cash and stock (either their own individual stock unit or a shared stock unit). If a user accidentally tags themselves to the wrong stock unit and serves a customer or transfers cash or stock, then the accounts will record the transactions against one stock unit but the physical cash and stock will move in/out of a drawer allocated to a different stock unit.
137. This can be corrected by either reversing the transactions and putting them through the correct stock unit, or calculating the cash value of the transactions and transferring the money to the correct stock unit.
138. In theory, there should be no net overall discrepancy to the branch as any losses in one stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear like an error has occurred in one of the stock units and can cause confusion obscuring other errors

Outstanding transfers between stock units

139. Where a branch has more than one stock unit in use (please see paragraph xx for an explanation as to stock units) there may be times when cash and/or stock are transferred from one stock to another.

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140. For example if stock unit AA is running short of cash, stock unit BB may transfer money to allow customer service to continue smoothly. The user in stock unit BB should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit AA) and transfer the cash out. A receipt is printed which is kept in stock unit BB to confirm this. The user in stock unit AA then needs to accept the cash on Horizon and print their own receipt to confirm this. A report called "Transfer Reconciliation" can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals are equal to zero. Failure to do this can cause cash or stock to be caught in transfer and missed from cash and stock counts.

Transaction Acknowledgements

141. Some Post Office transactions eg. Camelot(Lottery)/Paystation™/Post & Go are not transacted through a Horizon terminal but instead via separate machine. However, the cash taken for these transactions needs to be accounted for on Horizon as part of the overall branch balance.
142. Transaction Acknowledgements (**TAs**) were introduced to automate the process of reconciling the data being sent directly from the separate machines and the amount of cash that should be processed through Horizon. The transactions for certain Camelot products, Paystation and Post and Go are processed overnight and the "Transaction Acknowledgement" is sent to the branch the following morning confirming all transactions that took place the previous day. For example, lottery tickets (not scratchcards) are sold to customers via the lottery terminal. The data from these sales goes straight to Camelot and the branch takes payment for the ticket and puts the cash into a separate drawer on the lottery terminal. The following day, the branch's Horizon terminal will be sent an electronic TA which will appear as a message for the first person who logs onto Horizon. The TA identifies the total amount of sales transacted through the lottery terminal for the previous day and informs the person how much cash should be transferred from the lottery till drawer to the Horizon terminal drawer.

The reference to scratchcards will need some further explanation somewhere as we have seen a number of references from SPMRs to problems in this area

143. Prior to TAs being launched the subpostmaster would have to obtain the relevant print outs from each machine (i.e. the lottery terminal) and then input these figures onto Horizon and reconcile any cash owed. The launch of TAs removed the need for the subpostmaster to manually input figures onto Horizon. Historically, errors could occur in manually reconciling these transactions.
144. Even with the TA process, errors can occur if the cash from the lottery terminal is not transferred to Post Office or if the user accidentally pays the cash amount into the wrong stock unit. Alternatively, if the subpostmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.

Product specific errors eg. DVLA Motor Vehicle Licences

145. Failure to follow the correct process for accounting for certain products can cause errors. A good example is the accounting process for MVL discs (commonly referred to as tax discs).

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146. Branches will receive MVL discs from Post Office which they have to rem into their stock using Horizon. When the discs have passed the time where they can be put onto a car, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed.
147. When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it out to Post Office, Horizon will still record the disc as being in the branch, even though the disc has been destroyed.
148. When the branch comes to rollover at the end of the trading period and a full count of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon. Whilst this does not create a cash shortage, branches are held liable for "missing" discs at a charge of £41.50 per disc because Post Office is liable to the DVLA for the "lost" disc.

This is not something that we were aware of.

149. Failure to follow the reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed on Horizon, but no payment is actually taken, the branch has to reverse the transaction and the disc. There are a number of steps that the branch needs to follow. The branch has to reverse both the disc and the payment. If they only reverse the disc out of the system then the stock of discs will balance, but the branch will miss-balance in terms of the cash.

This should also address the possibility that the DVLA form itself may be incorrect - Ron has more details of this

Theft from Post Office

150. Theft by branch staff can and has occurred. It may involve staff taking cash or stock directly from safes or drawers where the branch has not put sufficient controls in place. These shortages would be identified when a physical cash count and declaration is made, but it is not possible for Post Office to remotely identify when the theft occurred. Some thefts may also be accompanied by an effort to disguise the theft eg. creating false transactions or gains.

Examples:

Cash or stock may be falsely declared to give the impression that the cash or stock is in the branch when in fact it has been stolen.

"Phantom" cash remittance pouches could be created to mask an amount of cash that is missing but the pouch is reversed before the dispatch, returning more value stock than is actually received (creating a negative stock figure. For example, Horizon does not take into account the amount of cash in pouches when it calculates the amount of cash that it is expecting to be declared. So, if £10k is missing, before the cash declaration is made, the branch could make up a cash remittance pouch to cover the discrepancy of what isn't there, so in effect the branch will not show a discrepancy on Horizon. Once the cash is declared, the branch will reverse the remittance pouch from the system.

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An overall branch balance is obtained by combining the cash and stock value figures. If the branch has created a negative stock figure, it will potentially mask a loss on the balance, for example, recording more cheques as being dispatched than are cleared.

151. It may be possible to identify the user ID that was used to undertake these transactions but it is difficult to prove exactly when the actual theft occurred.

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Schedule 1: List of Products

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Schedule 2: Glossary of Post Office terms

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