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Initial Complaint Review and Mediation Scheme

Suspense Account

This paper

This paper has been prepared for Second Sight in response to the following question raised by Second Sight:

“Could any SPMRs have been charged by Post Office Ltd for amounts that become incorporated in suspense account balances that were subsequently taken into profit by POL or any of its Counterparty Companies, or that remain as credit balances on the balance sheet of POL or any of its Counterparty Companies?”

We have interpreted this question to mean *“Could an SPMR be required to make good a loss as a result of a transaction discrepancy which Post Office or one of its client companies then takes into profit (or retains on a balance sheet) thus disadvantaging the SPMR.”*

Summary

In summary, where a subpostmaster is required to make good a loss this is because there has been a transactional error made in the branch. Such losses would manifest themselves as a cash or stock shortage in branch due to either (i) incorrect record keeping or cash handling errors by the branch staff (not through any intervention by Post Office) or (ii) through a transaction correction issued to the branch.

Post Office principally pays its clients according to transaction information originating from branches. If the transaction is completed correctly the branch accounts will balance (ie. they will show no loss or surplus of cash or stock). Post Office will then deal separately with any reconciliation discrepancy with a client.

If a branch, a client or a customer suspects an error with a transaction then there are processes in place for investigating that suspected error. Where an error is suspected in branch and a transaction correction is sent to that branch, the branch has full visibility of that transaction correction and has the ability to challenge that transaction correction. So long as the branch validly challenges the transaction correction with the necessary supporting paperwork from the branch's records, the branch will not be held liable for the underlying discrepancy.

Client reconciliation

Horizon collects data on a substantial volume of transactions which allows it to identify issues by branch, transaction type, client and method of payment according to how the transaction was recorded in the branch. In conjunction with clients, and subject to data protection requirements, Post Office can also sometimes track transactions back to individual customers or, in many cases, the SPMR may themselves recall the customer involved through their own knowledge of their customer base.

For many services, the transactional records as recorded in Horizon in branch are the sole data stream regarding activity in a branch. For a number of transactions and methods of payment, though, it is possible to compare the transactional records as recorded in Horizon with the clients' view of the transactions. In these latter cases, the daily transactional totals recorded in Horizon by the SPMR are matched with clients' records which in almost all cases are the same. In the rare cases where there is a mis-match, Post Office investigates the difference – a process which can involve the SPMR and the client.

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Where an error is suspected in branch, a transaction correction may be issued with relevant evidence to correct the accounting record of what has happened in branch. This may occur, for example, where there is a discrepancy between the branch records and the client records. If a difference arose where the client records exceeded the branch records then for services where the customer was paying money in that could lead to a charge from Post Office to the branch or where the customer was withdrawing money it could lead to a credit from Post Office to the branch.

The transaction correction process is fully visible to each branch and corrections cannot be made without an subpostmaster having accepted them. Subpostmasters may also challenge a transaction correction which would result in the transaction correction being put on hold pending further investigation by Post Office. For some transactions, the branch may holding additional paperwork or evidence not available to Post Office. Often branches are asked to submit this extra evidence to Post Office in order to validate the subpostmaster's challenge.

It should be noted that assuming the branch paid out or took from the customer cash to the same value as the actual transaction, then there will be no physical loss of cash and the transaction correction will simply correct the accounting error.

However, the branch is accountable for any failure to follow correct operating procedures in terms of processing transactions. It is the case that an SPMR may bear a loss if they have incorrectly processed a transaction or failed to follow the necessary processes for correcting that transaction or should they accept a transaction correction even though they were holding the necessary evidence to disprove the transaction correction.

Example

An ATM is directly connected to the LINK network and hence to the banks. Customer withdrawals are therefore reported direct to the customer banks and to Bank of Ireland as the provider of the ATMs. Bank of Ireland therefore knows how much should be paid to Post Office for the value of withdrawals done in the Post Office estate. In tandem with this, subpostmasters are required to record in Horizon the value dispensed to customers on a daily basis (as shown on the 16:30-16:30 receipt).

If a subpostmaster erroneously records the wrong cash dispensed figure on Horizon, this would be revealed as a discrepancy once the Horizon figures were compared to the Bank of Ireland figures directly recorded from the ATM. However, this would not cause a cash loss, only an accounting error, that would be corrected by a transaction correction.

Alternatively, if in theory Bank of Ireland's figures were incorrect, it would be a relatively straightforward exercise for a subpostmaster to challenge a transaction correction and submit to Post Office the 16:30-16:30 receipt from the ATM that would prove they have entered the correct figure into Horizon.

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The narrative underlying Second Sight's question assumes that where the client informs Post Office that an amount due to the client is greater than that recorded by the Branch, that charge is automatically passed onto the branch, and the branch has limited data on which to investigate discrepancies. Second Sight appears to assert that this results in a systemic control weakness. This assertion is incorrect given that:

- Post Office and the client are often able to resolve differences between themselves in the first instance, or are able to resolve them with the help of the subpostmaster, before getting to the stage of issuing a transaction correction.

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- A transaction correction will be issued where appropriate with supporting evidence and the subpostmaster can either accept or challenge (on the basis of the evidence and other information held in branch or available on Horizon).
- Horizon provides an subpostmaster with a number of 'reports' which can be used to resolve queries in branch.

It is acknowledged that Post Office has a suspense account for discrepancies between Horizon records and client records. These discrepancies are held for 3 years for investigation before being released to Post Office's profit and loss account.

This does not however operate to the disadvantage of subpostmasters. As described above, there are extensive processes in place to investigate Horizon-client discrepancies. To the extent that Post Office issues a transaction correction to a branch then the transaction correction and its evidence may be challenged by the branch. So long as a subpostmaster challenges a transaction correction and submits the applicable evidence to show there is no error on their part, Post Office will withdraw the transaction correction even where the client does not accept the evidence from the branch. The unresolved discrepancy therefore does not fall on the branch, but rests in the suspense account to be resolved between Post Office and the client.

Post Office notes that in addition to the assurance processes referred to in this note, Second Sight have given subpostmasters the opportunity to challenge specific transactions or transaction corrections through the Spot Review process and through the Scheme. The outcomes of those investigations have not revealed any findings that overturn Post Office's position.

For all these reasons, Post Office does not consider that there is a systemic control weakness leading to Post Office or its clients gaining to the disadvantage of the SPMR.

However, conformance failures and gaps in record keeping at branch level may create situations that can lead to a SPMR disadvantaging themselves or preventing Post Office from being able to conduct any meaningful investigation to help the SPMR. These could include situations where there are unexplained credits taken to profit by Post Office and losses in branch, but where it is not possible to associate the two to resolve them differently.

An example would be a branch trying to help a customer by completing consecutive transactions, giving receipts for each and taking payment in total at the end. A common error is for branches to press "cash" instead of "cheque" as the method of payment. A further common error is to put cheques in the post to the cheque processing centre without completing the necessary paperwork or remittance processes in Horizon. If the cheque is then received centrally and banked OK, Post Office would have cleared funds in its bank account, but the branch who mistakenly pressed cash would have an apparent shortage of cash. The customer may have been served in two transactions and so there is no "one for one" match of cheque value against transactions. The cheque may also have no datestamp on it or originating paperwork with it. It is therefore not possible for Post Office to associate the "unallocated cheque value" to a branch which has not recorded any cheque payments. With many branches making similar errors and with some values occurring frequently, it is not possible to cut through the data to the specific branch.

Post Office would not be charging the SPMR and gaining as a result, but it could lead to Post Office being hindered from being able to attribute centrally held credits to branches due to confusing records or lack of records in branch.

The value of these type of issues is typically small – if it were a high value cheque or an unusual value then the frequency is lower and therefore easier to investigate for matches across branches.

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Other issues

In the narrative supporting the central question, Second Sight also raise a number of other issues which we would like to address:

- Second Sight claims to have seen many cases where a non-cash payment does not hit the customer's bank account, particularly in relation to power or communications interruptions which Second Sight alleges can cause one side of a transaction to fail. Post Office has already set out in some detail what happens in relation to power or other communications disruptions and the subject is covered in Second Sight's Part One Mediation Briefing Report. In addition, the issue Second Sight refers to as a "one-sided transaction" is being dealt with separately.
- Likewise with other examples quoted where Second Sight alleges errors have occurred - it is not possible to comment on those in the absence of more detail and the opportunity to properly investigate what happened in those instances. However, assuming that these examples relate to cases in the Scheme, Post Office will investigate them in the normal way.
- In relation to comments made by Post office about challenging regulated and audited entities, this was not meant to be interpreted as meaning those entities would never make administrative errors. The reasoning was simply that such entities are regulated and are required to have systems and processes in place to comply with industry standards. It is, therefore, not wrong of Post Office to assume that those systems and processes work properly unless there is evidence to suggest that they do not.

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