

DRAFT - Thematic Issues Report

1. Introduction

- 1.1. *[May need more of an introduction to the report]*
- 1.2. *[We may also need a Table of Contents]*
- 1.3. The purpose of this Report is to deal with the common *"Thematic Issues"* that have been raised by many Sub-Postmasters in their applications to the Mediation scheme. This has been done in the interests of efficiency and in order to avoid duplication of facts and conclusions across many cases. It is envisaged that this report will be a "living document" which will be updated as further information arises.
- 1.4. We have adopted a modular approach to this report, with each thematic issue forming a separate section within the report.
- 1.5. As a result of our review of the 150 applications to the Mediation Scheme we have identified 17 key thematic issues. Of these, 10 relate to transactional issues such as *"Transaction anomalies associated with Scratch Cards"*. These 10 transactional thematic issues are collectively described as *"Type 1 Thematic Issues"*. The remaining 7 Thematic issues, collectively known as *"Type 2 Thematic Issues"*, cover a wide range of issues.
- 1.6. A table showing the link between *Thematic Issues* and applications for the Mediation Scheme is at *Appendix 1* and the 17 key Thematic Issues are listed in the following table: *[Should these be rearranged to reflect importance] [Should this now be the simplified version?]*

Type 1 Thematic issues	Type 2 Thematic issues
Transactions or Transaction Corrections not entered by the Sub-postmaster or staff	Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation
Transaction anomalies associated with Cash or Stock Remittances	Failure to follow correct procedures or mis-advised by Post Office Helpline
Transaction anomalies associated with Pensions and Allowances	Training and Support issues including Helpline and Audit
Transaction anomalies following telecommunication or power failures	Limitations in the Transaction Audit Trail available to Subpostmasters
Transaction anomalies associated with ATMs	Process issues at the end of each Trading Period
Transaction anomalies associated with Lottery Terminal or Scratch Cards	The contract between the Post Office and Subpostmasters
Transaction anomalies associated with Motor Vehicle Licences	The lack of an outreach investigations function
Transaction anomalies associated with Foreign Currency	

Transaction anomalies associated with Bank / GIRO / Cheques	
Transaction anomalies associated with Stamps, Postage Labels, Phone Cards or Premium Bonds	

1.7. [Also include or refer to SOPs and Acronyms]

2. The Contract between Post Office and Subpostmasters

- 2.1. This sections deals with 2 separate issues. Firstly the impact on Sub-postmasters of the terms and conditions set out in the Contract and secondly, issues relating to the notification to Sub-Postmasters of the terms of the Contract.
- 2.2. The 'Standard Contract' (dated September 1994) between Post Office and Sub-Postmasters is a 114-page document, that now incorporates several post-1994 amendments. [the entire document is shown at Attachment 1]
- 2.3. The Standard Contract spells out the rights and responsibilities of both Post Office and Sub-Postmasters. The clauses most frequently referred to by Sub-Postmasters are as follows:

- a) **Section 17** (in the November 2002 amendment) which *lists the Key Products and Services* (also referred to as the core products and services)
- b) **Section 15** (in the November 2002 amendment) where the *Post Office undertakes to provide the Subpostmaster with relevant training materials and processes to carry out the required training of his Assistants on the Post Office Products and Services... and the Sub-Postmaster accepts the responsibility to ensure the proper deployment within his Post Office branch of any materials and processes provided by Post Office Ltd and to ensure that his Assistants receive all the training which is necessary in order to be able to properly provide the Post Office Products and Services and to perform any other tasks required in connection with the operation of the Post Office branch.*

Also... Post Office Ltd may request from time to time that where it has obligations as described above the Subpostmaster should conduct specific training (whether through written/distance learning that may require confirmation of completion or via presentations) in relation to certain Post Office Services (such as, but not limited to, money laundering). Failure by the Subpostmaster to arrange for such training to be properly applied will be deemed to be a breach of this Contract by him.

- c) **Section 1, paragraph 10** which requires three months notice of contract termination from the Sub-Postmaster to Post Office and allows Post Office to:

terminate a Subpostmaster's contract at any time in case of Breach of Condition by the Subpostmaster, or non-performance of his obligation or non-provision of Post Office Services, but otherwise may be determined by Post Office on not less than three months notice.

- d) **Section 12, paragraph 12:**

The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay.

e) **Section 12, paragraph 13:**

the financial responsibility of the Subpostmaster does not cease when he relinquishes his appointment and he will be required to make good any losses incurred during his term of office which may subsequently come to light.

f) **Section 12, paragraph 14:**

surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately.

g) **Section 12, paragraph 17:**

Subpostmasters may exceptionally not be required to make good the full amount of certain losses at his office. If he feels entitled to relief in making good a loss he should apply to the Retail Network Manager.

h) **Section 19, paragraph 12** deals with *Enquiries by officers of the Post Office Investigation Division* and states that:

The main job of the Investigation Division is to investigate, or help the Police to investigate, criminal offences against the Post Office, British Telecommunications and the Department of National Savings. The Investigation Division does NOT enquire into matters where crime is not suspected.

i) **Section 19, paragraph 19** allows *persons interviewed by Post Office's Investigators to have a friend present during the interview but that that person may not interrupt in any way, either by word or signal.*

2.4. Having considered the Standard Contract in some detail we are of the opinion that the terms of the contract are biased heavily in favour of Post Office and operate to the detriment of the Subpostmaster most of the time. Also, we have not seen any evidence that Post Office either advised or required the Subpostmaster to seek independent legal advice before signing the contract. We are also unaware of any cases where Post Office was prepared to vary the terms and conditions of the Standard Contract at the request of the Subpostmaster.

2.5. The Standard Contract transfers substantial financial and other risks to Subpostmasters who may not have properly understood or appreciated those risks, particularly if they failed to seek independent legal advice. Consequently, there is a significant risk that appropriate risk mitigation measures were not implemented. Post Office has the power to require Subpostmasters to implement new products and services and failure to do so represents a breach of contract that could give rise to suspension or dismissal. The risk here is that Post Office will implement decisions from which it reaps the benefits (such as by reducing operating

costs) while the risks (and therefore the costs) fall onto the shoulders of the Subpostmasters who have no choice other than to accept the decision.

- 2.6. Post Office controls the Horizon infrastructure including back-office accounting functions. A consequence of this is that Post Office may hold Subpostmasters accountable for shortages that they are unable to investigate. We are aware that requests for investigative support or extracts of Horizon data are often refused. As Subpostmasters they have very limited options in these circumstances and often have to make good losses, where the underlying root cause has not been established. We consider this to be unfair.
- 2.7. Many Subpostmasters are unaware that, under Section 19, Paragraph 12 of the Standard Contract, the Post Office Investigation Division ('POID') does not have a mandate to provide general investigative support to Subpostmasters. There is no general outreach investigative function as POID would only act where suspected criminality had occurred.
- 2.8. We also note that when a POID criminal investigation is in progress, the interviewee is not allowed to be legally represented, although they may be accompanied by a 'friend'. We consider the refusal to allow the interviewee to be legally represented to be unfair.
- 2.9. We have been told by many Subpostmasters that they were not given a copy of the 114 page Standard Contract until long after they had committed to purchase their sub-post office; or long after they had started work as an Subpostmaster. In some cases, copies of the Standard Contract were not provided until Post Office commenced litigation. Post Office has stated that its standard operating procedures require that Subpostmasters are provided with a copy of the Standard Contract no later than the day that they start work. Evidence of the provision of the Standard Contract is not retained.

3. Cash machines

- 3.1. Not all sub post offices are equipped with ATMs ("Automated Teller Machines"). Post Office provided financial incentives for the installation of ATMs in some of the larger sub-post offices in order to attract greater footfall and, as a consequence, increased sales of Post Office products and services.
- 3.2. Of the approximately 150 Cases referred to the Mediation Scheme, over 20 have referred to problems with ATMs. These have included large shortages that were charged back to Subpostmasters by Post Office. In other cases large surpluses occurred, which caused concern to some Subpostmasters.
- 3.3. Most of the reports that we have seen relate to Bank of Ireland ('BoI') ATMs and to some to HANCO ATMs. Bank of Ireland ATMs were either internal or external to the branch.
- 3.4. The normal cash dispensing process on BoI ATMs involved electronic interaction between the Branch's ATM; Wincor Nixdorf; the LiNK platform and the customer's bank. The ATM cash balancing/reconciliation process involved electronic and also manual interaction between the Branch's ATM; the Branch's Horizon system; Post Office's Financial Service Centre (the 'FSC'); and BoI. This is a more complex arrangement than that deployed by high street and other banks whose ATMs are seamlessly connected to their own computer systems.
- 3.5. One notable problem, reported by several Applicants using BoI ATMs, seems to relate to the manual (rather than electronic/automatic) extraction and use of the '*cash dispensed*' figures from the '*Bank Totals*' receipt that Subpostmasters were required to obtain each day from their ATM and the daily input of '*cash declarations*' into Horizon. This problem is sometimes referred to as "*problems with the 'air gap' between the ATM and the Horizon system*".
- 3.6. As a result of the problems that the '*air-gap*' was causing, the Post Office in February 2008, issued an '*Operations Manual interim*'. Post Office stated that it was issuing new instructions because *a number of non-conformance issues are still affecting the processes for ATM reconciliation and settlement and to explain the correct end to end accounting processes relating to Bank of Ireland ATMs.*
- 3.7. The Introduction to the *Operations Manual interim* stated:

The Bank of Ireland, via the LiNK network, extracts a 16:30 -16:30 'cash dispensed' figure automatically from your ATM each day. This figure forms the basis of a settlement to Post Office. This figure is the value of cash dispensed from your ATM from 16:30 the previous day until 16:30 on the current working day." In other words, the amount of cash dispensed to customers, from each branch's ATM during the previous 24 hours (or during the previous 72hrs between Friday at 16:30 hrs and Monday at 16:30 hrs), would be available to BoI and that data would be extracted by BoI from each ATM.
- 3.8. The *Operations Manual interim* goes on to say:

In order to meet the required business accounting standard, branches are required to obtain each day the 16:30 - 16:30 'cash dispensed' figure from the 'Bank Totals' receipt which is available from the Bank of Ireland ATM, and to enter this figure on the Horizon system on a daily basis"... The Manual later describes that as needing to be done each day "after 16:30 but before 19:00 hrs...

The Manual continues:

In Product and Branch Accounting (P&BA) a comparison is made between the LiNK generated figure and the figure you enter on Horizon. If the totals differ, they are queried with Bank of Ireland and may result in a Transaction Correction sent to your branch. If you do not enter the daily 16:30 - 16:30 'cash dispensed' figure on Horizon, this means that the settlement figure by Bank of Ireland cannot be confirmed. In this case the two sets of figures are automatically reported as differing, resulting in reconciliation problems.

- 3.9. In addition to obtaining the cash dispensed figures from their ATM and entering it into Horizon at the right time of day, Subpostmasters were also instructed to make a daily cash declaration (and do this every day including on days when the branch closed before 16:30 hrs) into their Horizon terminal:

You must make a daily cash declaration on the Horizon system for the separate stock unit you have set up for ATM transactions (including days when you close before 4.30pm (16:30 hours) and you have logged on to the ATM stock unit). Unlike cash declarations for your counter stocks, however, you do not need to make a physical count of the cash contained in the ATM in order to complete the declaration.

You must make the declaration before 7pm (19:00 hrs) and you must include all funds stored in your official safe that you have received on a Remittance specifically for your ATM.

- 3.10. It would appear that some Subpostmasters either misunderstood the complex instructions or, were told by Helpline staff that *the problem would sort itself out* (though it did not) and subsequently found that the Helpline advice was later countermanded.
- 3.11. A consequence of getting things wrong with the ATM cash dispensed figures was that an *out of sync* situation developed where the branch's ATM would be expected (by BoI and by Post Office) to have an amount of cash in its cassettes that was sometimes widely different from the true cash figure that the Subpostmaster had entered into Horizon.
- 3.12. This *out of sync* situation became, it seems, commonplace in some branches prior to the February 2008 release of the Manual Update. Indeed, the Manual says:

If following the instructions contained in this workaid means that the way you will now enter data on Horizon and balance your ATM cash will change (for example, if you have previously entered figures which are not based upon the 16:30 - 16:30 figures or if you have not completed this task daily, moving to the correct process is likely to result in a cash balancing difference).

If this is the case, P&BA will issue a Transaction Correction, to address the cash balancing differences, and will try to provide clear evidence and as much information as possible to help with correcting transactions. The correction assumes that all previous ATM dispensed figures have been recorded on Horizon accurately and that branch cash has been correctly declared.

- 3.13. As further illustrations of the sheer complexity of the February 2008 instructions, the following extracts shows how easy it must have been to make mistakes, even after the new instructions were released:

From the paragraph titled *Loading cash into the ATM*:

Always enter in the ATM the number of notes loaded in the machine, not the value

Ensure that you enter the number of notes you are loading, not the amount already in the ATM

Please remember: At the weekly balance all figures are cleared. Therefore, you will need to enter all amounts in total when you reload the machine next.

- 3.14. The following extract is from the paragraphs dealing with *Weekly balancing and recording figures on the Cash Management Sheet*:

You must make a physical count of the cash in your ATM at least once a week and record the figures on the Cash Management Sheet before removing the cassettes for your physical check of the cash. You must not enter any of the figures on the Horizon system. The weekly balance can be carried out on any day of the week, even at the end of a Branch Trading period as long as your premises are closed to the public. It should be completed at any time after 16:30 hrs when the Disp 16:30 – 16:30 figure has been entered.

Please note: You do not have to reconcile the cash in your ATM with the cash declaration you make on Horizon. The ATM is balanced using the Cash Management Sheet as described below. If the Cash Management Sheet balances, your ATM has balanced.

... and the following extract is from the paragraphs dealing with *If the Cash Management Sheet balances, but there is a discrepancy on Horizon*:

The Horizon system should not be recording a discrepancy in the ATM stock. If a discrepancy is not rectified, it will give you a wrong carried forward figure and the problem could be compounded. If there is a discrepancy on Horizon but the Cash Management Sheet balances, you could have entered incorrect figures on the Horizon system.

Go back through your receipts and double check that the 16.30-16.30 'cash dispensed' figures for each day have been entered correctly on Horizon

Check that any ATM cash originally remitted into a counter stock has been transferred into the ATM stock

Check that the transfer into the ATM stock has been accepted

Double check that the daily cash declaration has been completed accurately

If you cannot resolve the discrepancy, do not phone the Wincor Helpdesk; please phone the NBSC for advice.

- 3.15. The Subpostmasters, in virtually every case that we have examined, state that they had no idea what was causing the *out of sync* situation. Of potential significance is whether the problems reported occurred before or after the February 2008 Manual update and also whether the branch was operating ATMs after the 16:30 hrs Bol 'cut-off' time during the week and whether the ATM was also in use at weekends, since this would require more complex accounting entries on Mondays between 16:30 and 19:00 hrs. These entries should include all cash dispensed in the preceding 72 hrs between 16:31 hrs on the previous Friday afternoon and 16:30 hrs on that Monday afternoon.
- 3.16. We have also been told that when ATM problems were reported to the Helpline, Subpostmasters were often told to *ignore the shortfall because it will sort itself out*. This advice runs the risk of allowing a large shortfall to build up, possibly in excess of £100,000, rather than dealing with the underlying problem. Inadequate and possibly inappropriate advice, particularly prior to the 2008 Manual update, appears to have been routinely provided which may have resulted in Subpostmasters coming under pressure to *falsely account* as part of a temporary solution to the as yet unresolved problem.
- 3.17. It is also possible that some of the large discrepancies reported could also include losses due to external theft using sophisticated methodologies such as *retract fraud*. The risk and consequences of this does not seem to have been appreciated by Post Office until quite recently.
- 3.18. Enquiries on this matter are continuing.

4. National Lottery

- 4.1. Not all branches sell Lottery tickets or Lottery Scratch Cards. Where these items are sold, they are usually sold from the retail counter, not the Post Office counter, even though they have to be accounted for using the Horizon terminal at the Post Office counter.
- 4.2. There is often a significant discrepancy between the trading hours of the retail shop counter compared with the Post Office counter. The retail counter will therefore be selling Lottery tickets/scratch cards outside the hours where the Horizon system is operating at the Post Office counter. Since branches are not allowed to sell National Lottery products other than through Post Office, all ticket sales have to be recorded, each day, into Horizon. Also, before any Lottery products can be sold, the pack of Lottery products must be '*Activated*' on the Camelot terminal and then '*Remmed in*' to Horizon.
- 4.3. We have received many reports where Subpostmasters have stated that their branch's Horizon system would get '*out-of-sync*' with the quite separate Camelot system, thereby generating material surpluses or deficiencies that are eventually corrected by Post Office issuing Transaction Corrections ("TCs") through the Horizon system. The average Lottery-related TC was approximately £650 and many of these TCs were for amounts that were exactly divisible by £160, that being the value of a full pack of Scratch Cards.
- 4.4. These problems appear to have been most serious and frequent between 2005 and February 2010, when Post Office made a significant change to its standard operating procedures that made it impossible, after that date, to have packs of inactive Scratch Cards recorded in Horizon at the same time as in the Camelot system. A further important improvement was made in February 2012 when Post Office introduced a system change that finally eliminated the possibility of synchronisation errors between the Horizon and Camelot systems.
- 4.5. We have also been told that before these important system improvements were introduced, inconsistent and sometime conflicting advice was provided by the Helpline which further exacerbated the problem.
- 4.6. The *out-of-sync* problem was particularly relevant in branches where the retail shop sold Lottery tickets late into the evening, long after the Post Office counter had closed. A further complication often occurred on a Wednesday evening that was the end of the weekly Trading Period. Subpostmasters were required to reconcile the Horizon/Camelot figures first thing on a Thursday morning, rather than at 17:30 hrs on the Wednesday, but this requirement was not always advised by the Helpline. It is not clear whether the training that Subpostmasters received covered this important point.
- 4.7. A specific example of the Camelot/Horizon synchronisation issue is described in *Appendix 4* to 2nd Sight's Interim Report dated 8th July 2013 and this provides further important information about this matter.
- 4.8. Enquiries on this matter are continuing.

5. Limitations in the Transactional 'Audit Trail'

- 5.1. Over 30 Applicants have claimed that they were unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon, because the underlying transaction data was not made available to them.
- 5.2. The concerns fall broadly into two areas:
- a) data that isn't available even on the day of the transaction; and
 - b) data that was only available for 42 days after a transaction occurred (later increased to 60 days following a system change by Post Office).

Data that isn't available even on the day of the transaction

- 5.3. Applicants' concerns principally relate to transaction types where Horizon produces, at the end of day, only an *aggregate amount* and a *volume* for that day's transactions e.g.:

Transactions: 35, Value: £17,112.

- 5.4. This occurs, for example, where customers have paid for goods and services by Debit or Credit Card.
- 5.5. In the event of an end-of-day discrepancy for this transaction type, and without the benefit of a disaggregation of a total amount into its constituent transactional components, Subpostmasters will find it difficult, if not impossible, to identify the individual transaction(s) that brought about the discrepancy.
- 5.6. Typically, a Subpostmaster will need to find items:
- a) that should be, but are not included in the aggregate total; or
 - b) amounts that have been incorrectly entered such as £50.00 entered as £500.00, £39.00 entered as £93.00, etc.; or
 - c) amounts that form part of the aggregate total, but should not be included in that total at all.
- 5.7. Only by finding those errors and omissions can the Subpostmaster begin the process of correction and loss mitigation. That may sometimes involve contacting the relevant customer but in order to do that, he needs not only to identify the incorrect or missing *transaction*, but also know the name, and perhaps also the address, of the relevant customer.
- 5.8. Many Subpostmasters have told us that prior to the introduction of Horizon it was easy to do this since the paper dockets retained to evidence each transaction provided this information. It is regrettable that the Horizon system does not provide the same functionality as the previous manual system.

Data that was at first available, but after 42 days (later extended by Post Office to 60 days) is no longer available

- 5.9. The main concern expressed about data availability is the need to go back to a previous period when delayed Transaction Corrections (“TCs”) are issued by Post Office. If the delay in issuing the TC exceeds 42 days (now 60 days), the Subpostmaster has little choice other than to accept the TC. Requests for supporting evidence that would enable the substance of the TC to be validated were routinely rejected by Post Office, usually on cost grounds.

6. Transactions not entered by the Subpostmaster or their staff

- 6.1. Many Applicants have reported that Horizon transactions have been entered, or cash or stock balances changed, when the branch was closed and no one had access to any of the Horizon terminals. Evidence has also been provided of transactions apparently occurring after a Subpostmaster was suspended and had no access to the relevant systems. Enquiries on these matters are continuing.
- 6.2. Post Office's position on this is that it does not, cannot and never has input transactions (or journal entries or Transaction Corrections) that impact branches. However, we are aware that certain error recovery and correction processes can result in transaction reversals that carry the System Identities ('IDs') of the branch employee who entered the originating transaction that the system itself is automatically reversing (see Section XXX '**Automatic Transaction Reversals**').
- 6.3. Enquiries on this matter are continuing.

7. Automatic Transaction Reversals

- 7.1. As mentioned in Section XXX a number of Applicants have reported transactions that appear to have been input when the branch was shut and no one had access to the Horizon terminals.
- 7.2. In some instances these “ghost” transactions appear to have contributed to shortfalls for which the relevant Subpostmaster was later held accountable. We briefly dealt with this issue in our Interim Report (see Spot Review 01). In that example, the Horizon system had automatically reversed a transaction which was only partially completed. Although the Subpostmaster had entered the original transaction, *he had not entered the reversal of that transaction*. Rather, the Horizon system had automatically generated a transactional reversal after suffering a telecommunications interruption.
- 7.3. The transaction identity assigned by Horizon to that reversal was that of the Subpostmaster, rather than a system-generated ID. We consider this to be inappropriate as it fails to differentiate between entries genuinely made by a User and those that are system generated.
- 7.4. This misuse of User IDs for system generated transaction reversals appears to be inconsistent with various assurances and evidence provided by Post Office and further enquiries are continuing.
- 7.5. This matter was also highlighted in a report by Helen Rose, Post Office Security - Fraud Analyst - dated 12 June, 2013:

“... it is just that I don't think that some of the system based correction and adjustment transactions are clear to us on either credence or ARQ logs.”...

“However, my concerns are that we cannot clearly see what has happened on the data available to us and this in itself may be misinterpreted when giving evidence and using the same data for prosecutions.”

- 7.6. N.B. 'Credence' is a Post Office Management Information Reporting System and 'ARQ logs' is a reference to a request for Horizon information archived through the 'Audit Retrieval Query' process.
- 7.7. Enquiries on this matter are continuing.

8. Cash and Stock Remittances ('REMs') in and out of the branch

- 8.1. More than 25 Applicants have raised issues concerning REMs.
- 8.2. 'REMs' are inward and outward remittances of stock and cash. Large amounts of cash and stock are routinely sent to and from branches using this system. Robust procedures are in place to ensure that the process normally operates reliably and that errors are rapidly detected.
- 8.3. Occasionally branches will report that a REM package has not been received or that it contains fewer items, or lower value, than the sender claims. Post Office deals with these discrepancies by issuing 'Transaction Corrections' (TCs) that show the details of the shortfall or overage. Because such discrepancies relate to physical items it is necessary to rely on witness statements and other documentary evidence as to the exact content of REM packages.
- 8.4. Some Applicants have described instances of Foreign Currency shipments being accidentally sent to the wrong branch. We are aware that some of these errors have occurred due to Post Office's Business Partner for Foreign Currency ('First Rate') using an incorrect delivery address.
- 8.5. Enquiries on this matter are continuing.