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Complaint Review and Mediation Scheme

A paper prepared by Post Office to assist Second Sight with the finalisation of their Briefing Report – Part Two

Version two

This paper and accompanying documents are confidential and are not to be disclosed to any person other than a person involved in the processing of Applicants' claims through the Scheme

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Introduction

As part of the Initial Complaint Review and Mediation Scheme (the Scheme), Second Sight is engaged as a firm of forensic accountants to provide a logical and fully evidenced opinion on the merits of each Applicant's case.

On 21 August 2014, Second Sight's Briefing Report – Part Two (the Report) was sent as a confidential document to a number of Applicants and their advisors, as well as to Post Office. The purpose of the Report was to describe and expand on common issues identified by Second Sight as being raised by multiple Applicants (a thematic issue). The aim being to provide general information that could then be applied in specific cases.

Post Office has been unable to endorse the Report. It wrote to recipients of the Report immediately after its release setting out its reasons for this, and prepared a Reply which was released on 22 September 2014, detailing its position on the issues raised within the Report.

Further, within Second Sight's Briefing Report – Part Two, several issues were said to require further investigation. With a view to moving the Briefing Report – Part Two to finalisation, the Secretariat offered to assist Second Sight in resolving these matters.

The following paper is written to aid this process, detailing the additional questions posed by Second Sight and the answers provided by Post Office.

Post Office was provided with the questions on 9 December ~~2013~~2014 and has committed to provide these answers to the questions posed before a meeting with Second Sight on 9 January ~~2014~~2015. In line with ~~this~~the short timetable, Post Office's approach ~~has been~~was to identify a subject matter expert within its organisation to, where possible and proportionate, answer each question. Post Office ~~has~~ was not therefore ~~not able to comprehensively searched~~search for information nor ~~canvassed~~canvass views on each question from all parts of its business. The answers ~~below therefore represent~~provided in version one represented the best information possible given the limited time available but should not ~~be~~have been considered exhaustive.

Note on Version two

Version one of these answers was provided to Second Sight on 7 January 2015 and subsequently discussed at a meeting between Post Office and Second Sight on 9 January 2015.

At this meeting and the face to face Working Group meeting on 14 January 2015, Second Sight clarified its position on a number of the questions. This has allowed Post Office to provide additional answers and information to those included in version one. These are included in version two.

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1. Transaction anomalies associated with CASH or STOCK Remittances (including counterfeit notes)

Post Office is aware that there is an issue of counterfeit notes being circulated within the UK economy in general. This is an issue that affects all businesses and Post Office has in place various policies and procedures in order to detect counterfeit notes and prevent them being circulated within the Post Office's network of branches.

- The large majority of costs / losses associated with counterfeit notes are claimed from other parties (e.g. clients, cash suppliers, etc.) with Post Office branches being held liable for a very small number;
- Where responsibility for allowing counterfeit notes to enter the Post Office network cannot be established, Post Office absorbs the loss itself.

The process used in Post Office can be summarised as follows:

- Once a counterfeit note is identified by Post Office, it is verified by a second person.
- Post Office then determines responsibility for allowing the counterfeit note into the network based on the information included on the Plastic Bank Note Envelope (PBNE), an envelope used to seal the cash as it is moved around the network;
- If a branch is found to have not followed correct procedures, it may be held liable for the loss created by taking a counterfeit note.

1.1. Please provide full details of the following:

- a) All procedures and controls in place to detect and prevent damaged or counterfeit notes being issued to branches as REMs;

The Post Office's Cash Centre is responsible for issuing remittances of cash to branches.

There are four key elements within the Cash Centre that ensure the integrity of notes it sends out to branches:

- Use of High speed note counting machines. Each note is checked for all possible characteristics and any notes that fail to meet the required standard are rejected, either because they fail to meet the Bank of England's note quality standard or because they are counterfeit.
- Daily calibration. Each note counter (there are 7 in use nationwide) are calibrated daily using a standard pack (a test bundle of mixed quality notes) by specialist onsite engineers. This check ensures that the counters will identify counterfeits and non-standard Bank of England notes and that they are removed from circulation. The calibration check exceeds the standard set out by the Bank of England and is subject to regular audit by the Bank.
- The Note Circulation Scheme (NCS). Under the NCS, the Bank of England does not distribute banknotes and instead, wholesale cash operators, including Post Office, sort and distribute notes. Under the NCS, all notes Post Office put into circulation must be integrity checked.

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- b) All procedures and controls in place to detect damaged or counterfeit notes in outward REMs sent from a branch to a cash centre;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- c) All procedures and controls in place that prevent notes included in an outward REM from a branch being sent to another branch as an inward REM without being counted or checked for damaged or counterfeit notes;

All inward remittances from Post Office branches are opened in the Cash Centre before being sent out through the cash cycle again i.e. the notes are checked before being remitted out to branches as per above. There is no process for cash to be sent from branch to branch.

- d) All procedures and controls used to ensure that notes issued as REMS for use in ATMs meet the relevant quality standards;

All cash that leaves the ~~cash centre~~ Cash Centre for ATM use is checked to ensure it is counterfeit free and is fit for ATM dispense in line with the Bank of England's note standards. Please refer to the answer provided in 1.1a for further information.

- e) All procedures and controls used in branch to detect counterfeit notes;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- f) The procedures to be followed in branch when a Subpostmaster detects counterfeit notes; and

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help, with seven different scenarios covered. Please refer to Annex 1 for further information.

The seven scenarios covered are as follows:

- Identifying counterfeit banknotes;
- Treatment of counterfeit banknotes;
- Remitting counterfeit banknotes;
- Counterfeit notes found loose in official cash;
- Counterfeit notes returned by a customer;
- Counterfeit notes impounded when presented by customers for a transaction;
- Counterfeit notes found in a deposit prepared by an Alliance & Leicester (now Santander) business depositor.

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- g) Who bears the loss associated with accepting counterfeit notes?

There are detailed procedures documented on Horizon Help to assist the branch in dealing appropriately with counterfeit notes. If the branch follows the correct procedures as detailed on Horizon Help then the branch is not held liable for any associated loss. Please refer to Annex 1 for further information.

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2. Transaction anomalies associated with Pensions and Allowances

One of the issues raised by a small number of Applicants to the Mediation Scheme relates to alleged transaction anomalies which, it has been claimed, are connected to Pensions and Allowances (P&A).

Typically, this has revolved around allegations of re-introduction fraud. This fraud involves P&A vouchers being entered into Horizon twice (known as a “reintroduction”). The fraud occurs where a customer visits a branch to receive a pension payment. First, the customer provides the staff member at the branch with a P&A voucher and receives their pension as cash in return. The staff member then enters the voucher into Horizon in order to account for the cash that has been paid out to the customer. The P&A vouchers are sent on a weekly basis to the Department of Work and Pensions (DWP). The act of entering the same P&A vouchers into Horizon twice is called reintroduction. Where this is done in error, it creates a surplus of cash in the branch. Where reintroductions are frequent and there is no surplus, these are strong indicators that reintroduction fraud is taking place at the branch.

Post Office has previously provided Second Sight with a paper on P&As. Annex 2 supplements the responses provided in this section.

2.1. Please provide full details of the following:

- a) Data mining or similar techniques used to identify branches which have processed unusual volumes of P&A vouchers or have processed previously used P&A vouchers i.e. 'Reintroduction' fraud;

P&A vouchers are no longer used by Post Office – DWP replaced them with the Post Office Card Account. The information below is therefore a historic process about which only limited information is available.

Typically the process may have involved some or all of the following:

- DWP staff in Lisahally used to conduct rota checks of all P&A submissions.
- If they identified a discrepancy in a pouch they would check the previous month to see if this identified a pattern. The Date Stamp indicator would often be used as a method of identifying potential suspects and the method, e.g. over-stamping a voucher with a second date.
- If further discrepancies were found they would then go back as far as possible which was normally no more than 12 months.
- At each stage their check would be corroborated and recorded stating who had carried out the checks and what had been found.
- As this was happening, Post Office (FSC) was advised by the DWP of the discrepancy and, if it was deemed necessary, an investigation may be begun by Post Office.
- Post Office Security would arrange for the branch P&A submissions to be intercepted by Royal Mail.
- These would be manually checked, recorded and retained by the allocated Security Manager.
- Any discrepancies would be scheduled and recorded along with any DWP findings in preparation for attending the branch.
- An audit may be arranged at the branch and the P&A foils on hand would be checked and recorded as live evidence.
- Fujitsu logs may be requested if required to confirm who had made the Horizon entry for the fraudulent transaction.

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- b) All procedures and controls used to detect 'Reintroduction' fraud;

See answer 2.1a and Annex 2.

- c) Any cases in the last 3 years where outgoing P&A vouchers have been stolen or lost in transit;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- d) Who bears the loss associated with lost or stolen P&A vouchers?

See Annex 2.

- e) Any cases in the last 3 years where P&A vouchers have been re-presented at a branch by a person unconnected with that branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- f) Any cases in the last 3 years where forged P&A vouchers have been presented at a branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- g) All procedures and controls used to detect forged P&A vouchers;

Please refer to answer 2.1a.

- h) Who bears the loss associated with accepting forged P&A vouchers?

A Post Office branch would only be held liable for a loss associated with P&A vouchers if they had been negligent, had not followed correct acceptance and processing procedures or acted fraudulently.

- 2.2. Are branches required to ensure that the value of the cheques and vouchers being remitted each week matches the value of benefit pay-outs recorded on Horizon?

At the time of P&A vouchers being used for transactions within Post Office branches, those branches would have been required to validate that the amount they were claiming as being paid out to customers (as shown on Horizon) matched the value of the P&A vouchers on hand.

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3. Transaction anomalies following telecommunication or power failures

Another issue raised by a number of Applicants to the Mediation Scheme was that of alleged transaction anomalies flowing from telecommunication or power failures. Power and telecommunications failures are a risk to any business as branches and Post Office are reliant on third party suppliers for these services. Recognising this risk, Horizon was designed with "recovery" processes in place to correct any issues caused by a power or telecommunications failure. Post Office notes that as yet no evidence has been adduced to show that either of these events will cause losses in branches where the recovery process has been correctly followed by branch staff.

3.1. Please provide full details of the following:

- a) Any tests carried out that ensure that Horizon's screen-based recovery instructions are visible to the person looking at the branch terminal when a power failure or telecommunications failure (or both at the same time) has occurred or is occurring;

The recovery process is shown on the Horizon terminal screen and ~~therefore will~~ therefore always be visible to branch staff.

- b) The information that needs to be entered by the user to complete the screen-based recovery process;

When the recovery process is carried out, a recovery receipt will always be printed as part of the next log on after the failure and a recovery event will be recorded in the Horizon Event Logs.

Depending upon the stage an individual transaction had reached at the time of the failure, Horizon may ask questions of the Subpostmaster to help decide whether or not that transaction was complete. Annex 3 – 'Transaction Recovery – Horizon Online Reference Guide' – details the questions asked for the different scenarios.

- c) Any tests carried out that ensure that the backup mobile telecommunications facility works effectively in all locations and in all circumstances including busy, multi-position branches;

a) Branch back up availability is tested once a week on a rolling basis (one seventh of the estate is tested every night).

- d) Any tests carried out when a branch is upgraded to Horizon Online that confirm that a reliable signal is available for the backup mobile telecommunications facility.

Please refer to the answer 3.1c.

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4. Transaction anomalies associated with ATMs

A number of Applicants to the Scheme have raised complaints in relation to alleged transaction anomalies connected with ATMs.

Post Office has previously provided Second Sight with papers in response to their questions involving ATMs. Annexes 4 and 5 supplement the responses provided in this section.

- 4.1. Please provide full details of any instances in the last 3 years where Post Office, Bank of Ireland or Wincor Nixdorf detected an attack against a branch ATM using either malware or hardware devices. Please describe the technical measures in place to prevent or detect this type of attack.

Post Office is not aware of any malware attack on its BOI ATM fleet that has resulted in loss to a branch. Hypothetically, if a loss of cash from a branch as a result of a malware attack was detected, that loss would be passed to BOI and not be absorbed by the branch

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.~~

Details of the technical measures in place to prevent malware attacks have already been provided to Second Sight in Post Office's note on ATMs – see Annex 4.

It is not clear which types of "hardware devices" are being considered by Second Sight. If this relates to cash trapping devices, Post Office has already explained that this type of attack will not cause loss to a branch – see paragraph 7.4 of Annex 4.

- 4.2. Given the evidence that the Rejected Notes totals, in several 'Print Totals' output reports by ATMs, have on occasions become corrupted, on what grounds does Post Office assert that the Dispensed Notes totals could not also be corrupted, thereby showing that the ATM had dispensed fewer or more notes than it really had?

The Print Totals receipt is only used for managing the ATM cash levels and to allow the Subpostmaster to identify when the ATM needs to be reloaded with cash. As per all transactions/inputs that take place on an ATM, Print Total details are recorded on the ATM's Electronic Journal. However, the information on these receipts is for the local management of the ATM only, is not used as part of daily/weekly ATM accounting and the data is not used outside of the local management of the ATM. This is demonstrated by the fact that the Subpostmaster must zero the totals on the Print Totals receipt when they reload cash into the ATM, which can be done as often as required.

Where some corruption of the rejected notes total occurred there is evidence of erratic and unusual behaviour by the postmaster in the management of hardware (cassettes) and software (Print Totals; balancing activities). For example, many activities were repeated multiple times in a very short space of time. Cassettes were loaded, unloaded, reloaded. Print Total instructions were performed multiple times, sometimes with different cassettes in or out of the ATM, in the space of minutes, and then repeated. In these circumstances it is not surprising that the ATM's logical functions may have been affected. However following the stated operating procedure would allow these totals to be reset without there being any impact on the cash dispense/balancing of the ATM as it is the Bank Totals and the ATM Totals receipts that are required to complete the daily and weekly ATM accounting procedures.

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It is the Bank Totals receipt that specifically details the value of cash dispensed by the ATM on a daily basis. The value of cash dispensed is taken from this receipt and recorded through Horizon. This value is tied back to the value of cash that has been dispensed through ATMs for each particular day. In summary, all ATM transactions are confirmed between Bank of Ireland and the Card Schemes, the vast majority of which are processed via LINK, as having successfully taken place. Any discrepancies between LINK and Bank of Ireland's data would be investigated before Post Office would be involved. The total value of ATM cash dispensed is then settled on the next working day between Bank of Ireland and Post Office. This total value is checked by Post Office and matched against the individual ATM dispense records. Therefore any discrepancy in the cash dispense figures would therefore be identified as part of the settlement process.

It should be noted that in 2011 a full investigation of ATM cash dispensed figures in relation to M040 was undertaken by Bank of Ireland and Post Office Security. For the month of April 2009 the daily cash dispense figures were compared back to the actual settlement to ensure these were aligned. No discrepancies were found.

In 2012 POL Security also undertook an investigation in relation to M042 that looked into the number of Rejected notes that were reported on the ATM during April 2011. Bank of Ireland provided electronic journal data for the dates in question. While no discrepancies were identified with the daily cash dispense figures reported by the ATM the exceptional high rejected notes figure appears to have resulted from the sequence of actions that took place at the ATM. It was determined that resetting the Print Totals resolved the local issue without any impact on the cash dispense records for the ATM.

- 4.3. Is it a Post Office requirement that when an ATM is installed that the branch immediately creates a separate stock unit for the ATM? How is this policy monitored and enforced?

Yes. It is stated in the Post Office Accounting Instructions for Bank of Ireland ATMs that a separate ATM stock unit must be created when the ATM is first installed. The ATM accounting instructions then refer to this separate stock unit throughout, as required.

The use of an ATM stock unit is not monitored separately as it is just one of the mandatory steps to be followed to properly account for the ATM. Post Office monitors the completion of daily cash declarations and weekly balances. Where these processes are not being conducted, this is followed up with the individual branches.

- 4.4. In circumstances where the Bank of Ireland generates incorrect ATM cash dispensed figures for both the branch's ATM and in the figures supplied directly to Post Office, please describe the controls and procedures in place to detect and investigate this type of error.

This question has already been addressed through correspondence with Second Sight around Suspense Accounts. Please see Annex 6.

- 4.5. Please explain why it is necessary for Subpostmasters to manually print and enter onto Horizon, the contents of the daily '16:30 - 16:30 ATM Reports' when the same information is sent electronically to the Bank of Ireland and then to Post Office.

It is necessary for Subpostmasters to key the data in because the ATM is not connected to Horizon and branches need to know the amount of cash dispensed from the ATM in order to prepare the daily cash declaration.

- 4.6. Please provide full details of the following:

- a) Any investigation in the last 3 years in which a technical fault was discovered with the ATM which produced a shortage when balancing the ATM or a loss on the Horizon ATM stock unit. How was the associated loss dealt with by Horizon?

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~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.~~

Post Office does not collate statistics on the numbers of "technical faults" in the ATMs across its entire network. It manages issues with ATMs on a case by case basis.

ATM related enquiries can be raised by branches through a number of routes depending on the circumstances (Contract Managers, Field Support teams, NBSC, FSC, BOI / Wincor, etc.). Only a fraction of those enquiries would relate to "technical faults" – although it is not entirely clear what is meant by this phrase. It should be noted that even where there is a "technical fault" this does not mean that cash has been lost or a branch's accounts have been impacted. For example, there could be a mechanical failure that causes the ATM to not vend cash.

If an issue raised by one branch may have an impact in other branches, this will be escalated through the appropriate channels. The escalation route depends on the nature of the issue but this could be through FSC, Post Office's network support teams, Post Office IT or Bank of Ireland.

As a general proposition, a "technical error" in an ATM cannot directly cause an error in the Horizon ATM stock unit as the ATM is not directly connected to Horizon. Should however a "technical fault" occur in an ATM that were to cause a loss to a branch, the branch would not be held liable for that loss unless the branch had failed to follow the correct ATM accounting procedures.

- b) Any escalated investigation in the last 3 years relating to unresolved cash discrepancies involving a branch ATM;

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~~There will have been numerous queries raised with NBSC and FSC regarding ATM accounting. To collate this information would require a review of all calls to NBSC and FSC regarding ATMs – this would be a massively disproportionate exercise given that Second Sight has not identified the specific issue it wishes to review.~~
See answer to question 4.6a above.

- c) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor discovered that any of their authorised engineers or representatives had stolen cash from any branch ATM;

There is no record of an authorised engineer or representative (excluding Subpostmasters) of Post Office, Bank of Ireland or Wincor stealing cash from an ATM.

The only incident that Post Office is aware of relates to a Wincor employee in 2013, though at this juncture it remains only an allegation. No branch in the Scheme was affected by these alleged incidents.

- d) Any instance in the last 3 years in which Post Office initially determined that a cash loss was attributed to a Subpostmaster but where it was subsequently found that the Subpostmaster was not responsible for the loss;

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As explained to Second Sight previously, Subpostmasters can challenge any cash loss or Transaction Correction in their branch in relation to ATMs. In many circumstances the information needed to determine the cause of a discrepancy is only held by a Subpostmaster.

It is therefore likely that there have been occasions when a Transaction Correction against a Subpostmaster has been challenged and reversed – in accordance with standard operating practice.

- e) The guidance issued to Subpostmasters relating to the '16:30 - 16:30 Print Totals Reports' in circumstances where the rear door of the ATM is located in a retail shop or other non-secure area. Is the Subpostmaster required to close the retail shop when obtaining the '16:30 - 16:30 Print Totals Reports' in these circumstances? How does Post Office monitor and enforce this policy?

The Print Totals Report is not required for balancing the ATM and does not have to be printed out on a daily basis as it is only required when additional cash needs to be loaded into the ATM.

As detailed in the Bank of Ireland ATM Operator Manual, this receipt is used to ensure cash is correctly loaded into the ATM (i.e. to ensure the correct number of banknotes is placed into the ATM).

As the ATM safe/cassettes would need to be accessed at this point, and in accordance with the guidance included in the ATM Operator, Accounting Instructions and Post Office Security Manuals, the premises must be closed to the public at this time.

It should be noted that the Bank Totals receipt (24 hour cash dispensed figures for 16.30 to 16.30) needs to be printed on a daily basis to allow the cash dispensed figures to be entered into Horizon. As only the rear cabinet door to the ATM has to be opened, and not the ATM safe, this receipt can be printed while the branch is open to the public.

Security procedures at branches are part of the compliance audits undertaken at branches. Subpostmasters are asked about the branches security procedures at the compliance audit so Post Office can verify that the correct processes are being followed.

- f) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor became aware of a customer receiving more cash than they were entitled to from an ATM. Please also provide full details of how the resultant cash shortfall was dealt with in the branch's ATM/Horizon balancing process and whether any Subpostmaster was held accountable for losses that were later found to be attributable mechanical problems with an ATM;

This question has already been addressed in Post Office's paper to Second Sight on ATMs which explains the processes used to detect, and protect branches from third party fraud. ~~The request for general information on the occurrence of certain events, without identification of a specific issue raised by Applicants is disproportionate. Post Office would of course be happy to provide more detailed information on any specific example put forward by Second Sight.~~

In relation to the statistical information sought, see the answer to question 4.6a above.

- g) How Post Office detects and deals with incorrect items reported in the ATM '16:30 - 16:30 Print Totals Reports' in circumstances when the incorrect figures have also been reported electronically to Bank of Ireland. Please also describe the accounting treatment of any loss that occurs in these circumstances;

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Post Office does not consider that ATM reports are unreliable. However, if there were an issue with the 1630 report, it would be the same data feeding through to Bank of Ireland. Therefore, if the Subpostmaster accurately keyed in the 1630 data (accurately from the report which, it is being claimed, could be wrong) then the data in Horizon and the data at the Bank would both be the same (and wrong). In that event, Post Office FSC would not identify any issue as the two figures agree with each other.

It would be the Subpostmaster that would be in the position to detect the anomaly. This is because the Subpostmaster is required to do a weekly physical balance of their ATM at intervals, during which (if the 1630 report were wrong) they would find a difference between the physical cash in the machine and the cash that the 1630 data indicates should be in it.

The Subpostmaster would then be able to make a call to the helpline as with any other balancing issue.

There is no unique accounting treatment that would arise in such a situation. Post Office finance systems would include the 1630 data and any enquiries/disputes about that data would be handled in the same way as any other balancing queries.

- h) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor has become aware of any theft relating to an ATM, that was carried out (or suspected of having been carried out) by any person other than a Subpostmaster or a branch employee. Please also describe the accounting treatment of any associated loss.

Please refer to the answer provided to 4.6 c.

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Transaction anomalies associated with Lottery Terminal or Scratchcards

A number of Applicants to the Mediation Scheme have complained of alleged transaction anomalies relating to the lottery terminal in their branch or the accounting process for Scratchcards. Post Office has addressed these issues in detail in its investigation reports and in its response to Second Sight's Part 2 Report.

- 4.7. Please provide full details of any instance in the last 3 years in which any Post Office or Camelot employee or representative has been found to have stolen Scratchcards or any other Lottery products/prizes.

There have been no such incidents that Post Office is aware of.

- 4.8. Has Post Office ever issued an instruction that unused Scratchcards must not be collected by Camelot representatives? Please provide full details of the circumstances that gave rise to any such instruction being issued.

Post Office procedures for the return of activated and Unactivated Scratchcards is detailed on Horizon Online Help. The relevant extract is appended at Annex 7.

Further, there are regular Branch Focus updates reminding branches not to give packs to Camelot Representatives. An example of which is appended at Annex 8.

- 4.9. Is it possible for a Camelot representative to activate packs of un-activated cards without the knowledge or approval of the Subpostmaster? How would this unauthorised activation be dealt with on Horizon?

Anyone with access to and knowledge of the Lottery Terminal in a branch (which is often located in the retail side of the premises) would be able to activate cards. Unactivated packs should, however, be held securely by the Subpostmaster and the Lottery Terminal would be expected to be subject to a form of security in branch as it is sited with cash and retail stock. Ultimately, preventing unauthorised access to the Lottery terminal is a Subpostmaster's responsibility.

If an unauthorised activation were made, it would currently lead to a Transaction Acknowledgement (TA) being sent to the branch to "rem" the pack in. Prior to the deployment of TA's, it would have led to a Transaction Correction (TC) being sent to the branch, with the same effect of remming the pack in.

Both of these events (TA or TC) would lead to a message being presented on Horizon to branch staff requiring formal acceptance by the branch. They could in turn be challenged and more evidence asked for by the Branch. The TA or TC could be validated against records from the Lottery Terminal.

- 4.10. Is it true that whenever a claim for a prize is made, in respect of at that point an un-activated Scratchcard; the entire pack from which that card was taken is automatically activated? Please describe the accounting treatment of any Scratchcards that are activated in this manner.

Yes. The subsequent accounting would be the same as noted above in the response to 5.3

- 4.11. Prior to the changes made to Standard operating Procedures in February 2010, and the subsequent implementation of 'Ping' in February 2012, did Post Office find that many branches were making similar mistakes in regard to processing Scratchcards? Please provide full details of the types of mistakes that were routinely being made. Please also provide a schedule showing for each month, how many TCs were issued and of what aggregate value (separating TC Invoices from TC Credits) during the years 2005 - 2011 in respect of Lottery matters?

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~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.~~In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

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5. Transaction anomalies associated with Foreign Currency

Post Office is not aware that alleged anomalies connected to foreign currency transactions have been raised by a material number of Applicants to the Mediation Scheme. Second Sight's questions on this subject are answered below however this issue may be better addressed on a case by case basis.

- 5.1. Please provide full details of how the Forde Moneychanger ('FM') system operates. Please explain in detail how FX deals were accounted for and the instructions that were provided to Subpostmasters.

The Forde Moneychanger was used to manage foreign currency transactions and stock in branches before these functions were carried out on Horizon. Each morning, the branch would receive a fax with the daily exchange rates on it and a member of staff would enter each rate into the machine manually. The machines also sent rates to the rate board (which displayed the rates to customers) and, once this was done, a member of staff checked the rate board to verify that the rates were displayed correctly.

All foreign currency transactions were entered individually onto the Forde Moneychanger throughout the week and the machine used a carbonated till roll to provide the customer with a receipt and branches with a copy of all transactions and balances.

Each night a stock report could be run to check the daily totals. Each Wednesday the machine was balanced and the totals were then transferred by a member of staff onto Horizon where the foreign exchange stock would be 'balanced' again. The figures were entered onto Horizon as bulk totals; individual transactions were not entered onto Horizon.

- 5.2. Also, how does the FM system, and Horizon, account for the difference between a transaction carried out at a Special FX rate and the expected Normal FX rate? As an example, if a customer was given €150,000 in exchange for £100,000, whereas the Normal FX rate would have only given him €145,000, how did the FM and Horizon systems account for the €5,000 difference? What flexibility was or is available to Subpostmasters when agreeing to non-standard FX rates?

The Forde Moneychanger machine was a stand-alone piece of equipment used to convert sterling into currencies bought and sold to customers. Print-outs from the machine detailed the value of currencies on hand that the user would validate by way of a physical check. The sterling equivalent of these currencies was then entered into the Horizon system. A revaluation amount was also detailed on the print out and entered into the Horizon system. Providing the amount of foreign currency on hand matched what the system stated should be there, the branch accounts (specifically the foreign currency stock unit) would balance as the revaluation figure accounted for the difference in exchange rates from one accounting period to the next. The actual exchange rate at which currency was sold was irrelevant as this was accommodated in the revaluation figure. So, by the Applicant selling currency at a more favourable rate to the customer and processing this through the Forde Moneychanger machine (i.e. manually altering the rate on the machine) the stock unit accounts would still balance.

A special rate for foreign currency transactions over £2,000.00 could be obtained by contacting First Rate Travel Services by telephone at the time of the transaction. The transaction would then be processed via the FM machine at the special rate.

- 5.3. Allegations have been made about unauthorised access to transaction data by staff located at the Fujitsu office in Bracknell. As previously requested and agreed, please provide the email archives in PST or NSF format for Post Office staff working in Bracknell during 2008.

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~~This matter has already been addressed in Spot Review 5 and also subsequently in the Post Office Investigation Report for the Applicant whose case Second Sight reviewed in Spot Review 5. Second Sight were also sent previously a draft witness statement from a Post Office employee which made it clear that there was no capability to alter live branch data. As yet, Second Sight has not suggested that the information provided by Post Office was incorrect so it is not understood what further enquiries are required in this regard.~~

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

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6. Transaction anomalies associated with Bank / GIRO / Cheques

- 6.1. We are aware that every night, a data file is sent to every bank into which its customers' have deposited funds, and from which its customers have withdrawn funds. It is then those banks that bear the responsibility to reconcile Post Office's record of what has taken place with their own records of the entries that have been processed each day into their customers' accounts.

This is a statement with no question to answer

- 6.2. It follows that each of those banks is expected by Post Office to take action where (for example due to telecommunications interrupts between a customer's bank and a branch's Horizon system) a customer's account has not been debited or credited by the bank when Post Office's records show that it should have been, or where a customer's account has been debited or credited by the bank when Post Office's records show that it should not have been. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank.

This is a statement with no question to answer

- 6.3. Please provide us with a schedule listing all TC's issued to branches in the last 12 months relating to this type of adjustment.

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.~~

- 6.4. Please provide us with a schedule listing all amounts received back from any bank, in response to that reconciliation process in the last 12 months, clearly describing the accounting treatment of those amounts.

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.~~

- 6.5. We are aware that in some circumstances a customer may benefit from a duplicated transaction. Please provide full details for any such instances that have been occurred in the last 3 years and state whether any Subpostmaster was held accountable (during any period beyond the end of a Trading Period) and required to make good the resultant shortfall.

~~Though this is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants, the question has already been addressed in Post Office's paper to Second Sight with regards to 'One Sided Transactions'. As described in Post Office's more detailed paper at Annex 11, this scenario does not give rise to any loss to a branch.~~

- 6.6. We are aware that the November 2008 phasing out of two-part paying-in slips increased the possibility of error or fraud impacting Subpostmasters. Please state what compensating controls were implemented as a result of this process change and describe the consultative process that was used prior to implementation. Please provide details of the anticipated cost savings associated with this process change together with the estimates of increased financial risk i.e. the cost benefit analysis carried out by Post Office.

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~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. Further, it is out of scope in terms of Second Sight's investigations.~~

Issues regarding Girobank deposits that are in scope have already been addressed in the paper at Annex 9, as previously supplied to Second Sight. As described in that paper, the change from paying in slips to "chip and pin" was driven by the client bank and was beyond Post Office's control. Any cost-benefit analysis would therefore have been undertaken by the client bank and not Post Office.

- 6.7. Please provide us with a schedule showing the monthly volumes (and the aggregate values) of EN/TC Invoices compared to Credits that were issued to branches, in regard to Giro payments and Girobank Deposits and Withdrawals, in the years 1999 – 2013.

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.~~

- 6.8. We note that cheques not covered by a Cheque Guarantee Card were not an acceptable Method of Payment for certain transactions e.g. the sale of Foreign Currency. Please confirm whether or not Horizon is programmed to reject unacceptable Methods of Payment in these circumstances. Also, if a branch has systematically been accepting cheques in amounts that exceed approved limits, is there a process whereby those repeated errors are detected and corrected?

Horizon can advise on the method of payment, but a clerk can in practice choose to take a cheque instead of cash, for example, but still record the transaction as cash on Horizon. Horizon is programmed to indicate the appropriate methods of payment for products. If card payment is not acceptable then it would not be offered and the card would not be recognised. If cheque is not acceptable then the cheque payment icon would not appear but Post Office cannot control whether a branch chooses to ignore that fact and still take a cheque and process at the point of settling the transaction as a cash payment

Whether or not a cheque was covered by a Cheque Guarantee Card was not the reason behind whether a method of payment was acceptable regardless of whether a guarantee card was presented. Acceptable payment methods were dictated by what range of payment methods Post Office's corporate clients wanted Post Office to offer.

As regards the Cheque Guarantee Card, these no longer exist as they were phased out by banks.

- 6.9. We are aware that in some circumstances Horizon does not record transactions accurately. Specific examples include:

Post Office is not aware of the "circumstances" alleged by Second Sight in this question.

- a) Where, during Horizon's recovery mode processing, some transactions, that were not processed, or were only partially processed, may not be properly corrected when the system invites the counter clerk to correct the errors or omissions and, if the screen instructions to the counter assistant are interrupted (as would be likely to happen where there are telecommunications or power interrupts) then discrepancies may ensue;

The transaction may not be recorded accurately but that is due to how the clerk applies and follows the "recovery instructions" which have been issued to branches (please refer to Annex 10). Whilst it may have been the system that had a connectivity issue, the error in accounting would be due to the user's failure to follow the recovery instructions, not a failure by Horizon to record it accurately. Accounting process is covered by the recovery instructions at Annex 10. The quick reference guide has been provided in response to question 3.1b.

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- b) Where misalignment of screen icons results in the inadvertent execution of the wrong type or value of transaction;

There is a screen calibration application which can be invoked at any time by the Subpostmaster from the Engineering menu of Horizon. If the screen is out of calibration then that would affect the whole screen and not individual icons so it would be obvious to the user that the screen had gone out of alignment. If this issue is noticed and a call made to the helpdesk then the subpostmaster or staff member would be asked by the agent to re-calibrate their screen to fix the issue.

- c) Where Foreign Currency transactions have been incorrectly accounted for through interaction between the Forde Moneychanger System and Horizon (Note: we regard the FM system as a component part of 'Horizon'); and

As described in Section 6, such errors would be the result of user error.

- d) Where system-to-system interface problems result in incomplete transaction processing e.g. where a PINpad, PayStation or other piece of equipment fails to complete its part of a transaction.

If the above scenarios took place, the transaction would simply decline or the customer would be asked for an alternative method of payment. As the transaction would be declined and the branch's accounts thereby left in balance, there is no need for any follow-up accounting process.

- 6.10. Please provide full details of the controls and procedures that will detect these types of error and describe the accounting procedures that apply in these circumstances.

The accounting procedures for these are conducted in branch and, wherever a particular process is necessary, it has been described above.

- 6.11. We are aware that if the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, Post Office will absorb this loss and not pass it on to the Subpostmaster. Please provide monthly totals showing the aggregate of all such losses in the years 1999 - 2013, describing how much of that loss was absorbed by Post Office and how much was passed on to Subpostmasters.

Post Office has previously explained (via Spot Review 12) to Second Sight that lost cheques cannot be the cause of loss to a branch unless it can be shown that the branch is at fault.- As Second Sight accepts this explanation, this request is disproportionate.

- 6.12. We are aware that some Subpostmasters routinely accept high-value cheques from customers that are in excess of the monetary limits set by Post Office. Please describe the procedures that were followed prior to determining these limits and state the accounting treatment of losses that occur in these circumstances.

Products may have limits (e.g. savings may only be up to certain values). ~~But,~~ it is not the cheque that is limited. ~~It is the investment amount.~~ There is no high value cheque limit set by Post Office.

- 6.13. We are aware that processing or technical failures can occasionally give rise to 'one-sided' transactions. We are also aware that Post Office has stated that 'in any event a branch will never be liable for an error caused by a 'one-sided' transaction'.

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This is a statement with no question to answer

- 6.14. Please describe the controls and processes that detect one-sided transactions in circumstances such as when a customer withdraws funds from an account at the branch counter but, although he has received the cash, the account never gets debited.

This question has already been addressed by a paper appended at Annex 11 which has already been supplied to Second Sight.

Nevertheless, "One sided transaction" implies incomplete double entry. We would be grateful if Second Sight would cease the inappropriate use of the phrase "One sided transactions".

What the question actually asks about is completeness of record keeping.

If the transaction interruption occurs during the Horizon accounting process, it would be subject to recovery processes, referred to earlier and previously shared with Second Sight.

If the interruption is beyond the branch, the branch accounts are not affected. How banks would then detect their own failure to debit their customer's accounts is a matter of their internal process. From a Post Office point of view, the withdrawals recorded in branch would lead to debits in a central vendor account which Post Office would in turn clear down by payments received from the bank. If the bank had not debited their customer's account then that would likely manifest itself in them not paying Post Office centrally and Post Office would challenge them with evidence of the original transactional record. This is not a situation that would lead to a discrepancy for a Subpostmaster.

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7. Transaction anomalies associated with Stamps, Postage Labels, Phone Cards or Premium Bonds

- 7.1. We are aware that occasionally postage labels are purchased by customers, but the printer fails to print correctly. Please describe the procedure whereby the Subpostmaster can recover the cost of the missing label in circumstances where the missing label has not been processed as a 'reject'.

After printing, Horizon explicitly asks the clerk “has this label printed correctly Y/N”.

If the label has not printed correctly then the clerk confirms “no” and another label is printed.

Post Office is aware of situations of damage in the printing process and there is a process to “spoil” them so that the branch is not disadvantaged. There is a clear process in Horizon and the branch is required to retain the spoilt label. This is appended at Annex 12.

To be able to claim a label as spoilt, the branch is required to produce to Post Office the spoilt label as evidence.

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8. Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation

- 8.1. We are aware that occasionally branch Touchscreens get "out of alignment" and that in these circumstances touching one icon generates a system response associated with another icon. Please provide full details of the controls and procedures in place that detect or prevent this type of problem.

Please refer to the answer provided to 7.9b

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9. Failure to follow correct procedures or mis-advice by POL's Helpline

- 9.1. A number of applicants have reported that Helpline staff have said "don't worry, the problem will sort itself out".

This is a statement with no question to answer.

- 9.2. Please provide full details of the actions taken to investigate these allegations and confirm whether or not Helpline staff have been instructed to never say "don't worry, the problem will sort itself out", or similar words.

Where such allegations have been made by Applicants to the Complaint and Mediation Scheme Post Office has fully investigated the NBSC calls logs as part of its thorough investigation and reported its findings in the Post Office Investigation Report.

In relation to certain transactions, Post Office has in place processes and controls to detect particular errors by branch staff. Where an error is detected, a transaction correction may be sent to a branch to correct a mistake. In these circumstances, it may well be correct for NBSC to advise a branch to await receipt of a transaction correction amongst other steps. Post Office understands that it is this scenario that is being referred to by Second Sight and considers that this advice may be appropriate in the right circumstances.

- 9.3. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to those situations where customers leave parcels and come back some days later to settle their accounts. Specifically, what is Post Office's position in regard to the credit risk that Subpostmasters take, and the potentially 'false accounting' issues that those Subpostmasters risk, when they routinely allow customers (such as eBay Sellers) to drop off large quantities of parcels that are then dispatched by settling the labels to 'Fast Cash' (even though no cash has at that point been received from the customer) and then reversing all those Fast Cash payments to cheque when the customer later pays by cheque?

Post Office does not have a policy of providing credit to customers. Where Subpostmasters have done so, they have contravened Post Office operating instructions which state that at the point the transaction is completed the appropriate method of payment should be taken from the customer.

Therefore, the risk would be the Subpostmaster's in respect of an unsettled payment from the customer.

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10. Training and Support issues including Helpline and Audit

Another issue running through the applications to the Mediation Scheme was the alleged poor quality of training and support provided by Post Office to Subpostmasters.

Second Sight's questions on this topic are dealt with below however Post Office considers that issue relating to training and support are likely to be case specific and does not see how this can be a thematic issue suitable for Second Sight's Part 2 Report.

10.1. Please provide us with full details as to how the following issues are dealt with during the handover to a new Subpostmaster:

- a) Ensuring that the new Subpostmaster has manager/supervisor-level access rights to the branch's Horizon system;

The Field Support (FSA) team involved in the branch opening process would create the User ID for the incoming Postmaster at the correct (maximum) level of manager. The audit team would:

- Delete any obsolete users from the system and ensure that the incoming Postmaster and any new staff members are added to Horizon in the correct format.
- Check the Horizon User ID's against the list of Registered Assistants.
- Any staff working in the branch that are not registered with HR should be reported via the Anomalies Report that the FSA completes to notify HR so that they can follow up with the Postmaster.
- Inform the Postmaster of the correct process for registering assistants with HR.
- Set new alarm codes once the transfer is completed under FSA supervision.
- Add new user(s) to Horizon ensuring that all staff are also listed on the reporting form to HR.

- b) That every employee has a unique User ID and password;

Please refer to answer provided to 11.1a.

- c) Ensuring that every till or employee and ATM is associated with a separate stock unit; and

Some branches operate with just one "shared" stock unit as they don't feel the need to have individual units (this depends on the branch's preference).

ATM's are required to have a dedicated stock unit. This is checked on branch audit. If the branch does not have a separate ATM stock, one is created (instructions on how to do this can be found in the Additional Horizon Procedures on EASE) which stands for 'Engaging and Supporting Effectively' and is the library of tools, official forms and processes from which the Field Team take all of their instructions in the deployment of all types of Field Support Activity.

- d) Ensuring that all branch employees are approved by Post Office;

Please refer to answer provided to 11.1a.

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10.2. We are aware that, when attempting to correct errors made at the counter, and to deal with incoming TCs, some Subpostmasters make matters worse by making further mistakes at that point. Please describe the controls and procedures in place to detect and prevent or correct these types of commonly made error.

“Correcting errors” and “dealing with incoming TCs” are different things. A branch may be seeking to correct an error it has spotted itself well before a TC becomes necessary.

When correcting errors, some Subpostmasters do indeed sometimes make further errors. The controls and process are:

- Through their own vigilance in concluding a transaction they should spot issues;
- Through daily cash declarations and other routine supervision of their branch they should spot errors;
- Having spotted an issue they can use local transaction logs to review and reflect on transactions; and
- If they cannot determine the root cause themselves then they can call the Helpline who in turn may involve FSC. However, for many errors made at the counter by branch staff, there may be limits on what investigative support Post Office is able to provide because it is not aware of what is physically happening in each branch – only a Subpostmaster knows this.

10.3. Please provide full details of the following:

- a) Any surveys or other quality control procedures in order to measure user satisfaction with regard to the NBSC and HSD Helplines;

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.

Further, the Subpostmaster engagement survey also measures satisfaction levels of users of the NBSC – the most recent of which showed that 83% of respondents felt that the support from NBSC was effective.

- b) The extent to which that advice provided by the NBSC and HSD Helplines is monitored and quality checked;

All advisors are coached through a robust quality process called ‘rewarding skills’. This involves the team leader listening into a selection of calls and providing feedback on call handling, customer service and quality of the response.

- c) The extent to which the written reports (call logs) of the NBSC and HSD Helplines are routinely compared to the actual calls and quality checked;

As part of the quality monitoring as outlined in 11.3b, the actual call log is checked to ensure that it has been categorised correctly and relevant details of the call are logged. There are no written reports as all calls are logged onto a robust call logging system.

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- d) Any surveys or quality control techniques used to assess the adequacy of training provided to Subpostmasters; and

Post Office uses the independent external organisation Kendata to collect feedback from all customers of Field Team Activity, including Training, Audit and Intervention activities.

Following these support activities which are supplied by the Field Support Advisors (FSA), across all branch segments in the Network, the FSA will ask the Subpostmaster, Operator in Charge, and all training delegates, if they will complete and return a double sided form to describe their experience in terms of the FSA's performance and the effectiveness of the activity itself.

A form is handed out at every activity as described below:

- At all Audits including Branch Closure Audits;
- Classroom and on-site training (BAU & NT);
- Post Transfer Visits;
- Interventions visits - including Non-Conformance Visits (NCV's) e.g. Mail Segregation / Dangerous Goods / other Non – Compliance/ standards activities.

Exceptions include:

- An audit resulting in Suspension;
- Special Request audits – where fraud is suspected.

Performance Management

All feedback is submitted directly to Kendata, then summarised and sent to the line managers of the Field Team and the individual FSA. The reports are tailored to the different levels of line management on terms of detail ranging from full detail including comments at the FSA and FTL level, up to an overview of performance by teams and activity at Senior Manager level.

Each Field Team Leader (FTL), the first line managers of the FSA's, will discuss the performance of the FSA's at their appraisals unless there are any concerns raised, in which case this is dealt with as soon as the reports are received. If further information is needed to hold an effective discussion, the FTL will call and speak to the person providing the feedback, wherever possible, to further understand the issues.

The FSA performance, and the FTL's team performance is discussed monthly as part of their appraisal with the Regional Manager.

The feedback received on the activity itself is used alongside other information gathered by the Lead Team to drive and inform change and improvements to the Field Team support offer.

Examples of the forms used are appended at Annexes 13, 14 and ~~15~~15.

- e) Any surveys or quality control techniques used to assess the adequacy of training provided to branch staff other than Subpostmasters.

This is a duplicate of question 11.3d.

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10.4. Process issues at the end of each Trading Period

This question is not understood.

10.5. Please provide full details as to how and when Post Office notifies Subpostmasters that they may extend a Trading Period into what should be the next Trading Period.

Branch trading dates are communicated to branches annually through Branch Focus (the branch newsletter) and are also updated on Horizon online help. If a revision was needed during the year the same process would be followed.

If a branch wished to request permission to extend their trading period they should contact NBSC. This would only be permitted in highly exceptional circumstances. NBSC would contact the FSC Relationship Manager who may consult with the Network Contract Manager. The formal response could come from any of the three parties, depending on the circumstances.

10.6. Please provide full details as to the options available to any Subpostmaster who, at the end of a Trading Period, discovered a shortfall that was:

- a) Larger than they could 'centrally settle'; or

The upper limit on being able to 'centrally settle' is £999,999.99. Should such an incident occur, Post Office would manage by exception.

- b) Only discovered after the Helpline had closed for the evening.

They could delay closing the Trading Period until the next morning – they could then contact NBSC before opening the following day. However, well run branches would be unlikely to have last minute surprises like that, because it would have become evident during other daily cash declaration processes and checks during the preceding weeks. Last minute surprises usually reflect poor planning / management by a Subpostmaster.

10.7. Bearing in mind that some TCs would be issued many months after the original shortfall, what options are available to Subpostmasters to 'fund' shortfalls that exceed their 'central settlement' limit?

Please refer to the answer provided to Q 11.6a.

10.8. Please provide full details as to the consequences of introducing 'Monthly Trading' periods. For example, did Post Office notice an increase in the number of branches suffering discrepancies that led to contract termination?

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.~~

10.9. We understand that when Post Office moved to Monthly Trading, Branch Suspense Accounts thereafter had to be closed out to zero at the end of each Trading Period. Please provide full details of options available to a Subpostmaster dealing with the investigation of a loss just before the end of a Trading Period.

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This is answered in Section 9 of Second Sight's Part 1 Briefing.

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11. The contract between the Post Office and Subpostmasters

Some Applicants have made complaints in relation to the contract between them and Post Office. Second Sight's questions arising out of these complaints are answered below.

11.1. Please provide full details of the following:

- a) Any insurance coverage Post Office has ever offered to arrange for its Subpostmasters;

~~This is out of scope and Post Office is not aware of this issue being raised in any CQR by an Applicant. Though this question is out of scope, it is a function performed by the National Federation of Subpostmasters. Discounted insurance rates have been offered to Subpostmasters by the National Federation of Subpostmasters and it is their decision whether or not they opt in.~~

- b) The measures Post Office takes in order to reduce the risk that incoming Subpostmasters, who take over an existing branch and its staff, may be inheriting employees who have been found to be, or are suspected of having been, incompetent or dishonest. In this context, was there, or is there now, any competency and integrity verification, performance appraisal, or formal disciplinary/warning process whereby outgoing Subpostmasters and Post Office's own Line Managers could warn incoming Subpostmasters where questions had been raised?

Staff members/Subpostmasters' assistants are employees of the Subpostmaster and not Post Office Ltd. It is the Subpostmaster who performance manages the staff members including any disciplinary action as appropriate. It is also a Subpostmaster who needs to assure themselves that any assistants are suitable for the role by conducting interviews, seeking references, etc.

When a Subpostmaster recruits a new member of staff there are a number of checks that have to be undertaken (e.g. right to work in the UK, proof of identity and proof of address along with their five year work history).

In addition, the individual must be registered with Post Office Ltd so the security checks can be undertaken (e.g. criminal record check). There is an annual check of all assistants to ensure they have been cleared through the pre-employment checking system. A recruitment file has to be established and maintained holding the basic paperwork for each assistant (please see section 15 of the Subpostmaster contract for services, paragraph 4, for further information).

Under their contract for services with Post Office, every Subpostmaster must establish, maintain and adhere to a formal disciplinary policy in respect of any assistants who fail to comply with the Subpostmaster obligations as detailed in the contract. The disciplinary policy must include the content as defined in the contract and records must be retained (please see Section 15, paragraph 9, of the Subpostmaster contract for services paragraph 9 for further information).

- c) The measures Post Office takes in order to satisfy itself that potential Subpostmasters have the necessary skills to meet the challenging requirement of being a Subpostmaster?

This is undertaken through:

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- a) The provision of a business plan to support an individual's application; and
- b) A competency based interview of the individual which is undertaken by trained assessors.

At interview, applicants are assessed on their ability to explain their business proposition, answer any questions raised and provide examples to demonstrate their understanding of what is required across a number of competency areas. The business plan is also assessed financially by the Finance team.

- d) How Post Office ensures that Subpostmasters have a copy of the Contract no later than the day that they commence their position.

The contract document is issued with the offer of appointment when an individual is advised they have been successful at interview. This has been the process since 2001.

- 11.2. We understand that many Subpostmasters have only signed the one-page 'Acknowledgement of Appointment' Letter and not necessarily been provided with a copy of the Contract. Please describe the basis upon which Post Office considers the Contract enforceable in these circumstances?

Post Office has stated on a number of occasions that matters relating to the Subpostmaster contract are out of scope and that, as this is a legal question, it is outside of Second Sight's area of expertise.

This is out of scope. However, in the interests of providing Second Sight with as much information as possible, Post Office's position is that this question concerns the formation and enforceability of contracts, the response to which will be informed by the particular circumstances of each individual contract and their application to the relevant legal principles. Though it is not therefore capable of giving rise to a general response it is worth noting that the "Acknowledgment of Appointment" document, whilst not the main contract itself, states that the Subpostmaster has been given and has accepted the terms of the standard Subpostmaster's contract.

- 11.3. We understand that Post Office considers the terms of the Contract to be broadly similar to those used in franchising arrangements across the UK. Please provide full details evidencing this proposition?

A franchise agreement is a private contract between two (or more) parties recording the basis on which they agree to do business in their particular circumstances. The SPMR Contract is similar in that it records the basis on which Post Office and Subpostmasters do business.

Enclosed at Annex 17 is an extract from the Encyclopaedia of Forms and Precedents. This is a leading legal text providing precedent agreements for various situations. The extract is Form 18 from Vol 16(4) and is a precedent for a "Non-Exclusive franchise agreement for a retail business".

As can be seen from the Precedent, the terms of a standardised franchising arrangement are broadly similar to the terms of the standard Subpostmaster Contract. There are obviously some differences between the two as the Subpostmaster Contract is tailored to Post Office's business whereas the Precedent is generic however the core principles are largely the same - for example (number references are to clauses in the Precedent):

- **Premises (4 and 9):** Both Franchisee and SPMR are both responsible for leasing the premises and ensuring that it is appropriate to operate the business.

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- **Setup costs** (10.1.2): The Franchisee must pay for the initial fit out and equipment costs if provided by the Franchisor. Post Office also requires this payment in some, but more limited, circumstances.
- **Training:** Franchisor / Post Office to provide initial training to the franchisee / SPMR (5.1.1) and the Franchisee/ SPMR is required to train their own staff (9.2.11)
- **Employees** (9.3.5): The Franchisee / Subpostmaster is responsible for employing suitable staff.
- **Equipment / Software:** The Franchisee / Subpostmaster is required to record all sales and other financial information using the equipment and software provided by the Franchisor (9.2.23 and 10.9).
- **Telephone lines** (9.2.22): The Franchisee / Subpostmaster must provide the communications line for the EPOS systems and credit card machines.
- **Advice** (6.2): At the Franchisor's discretion, it may provide advice to a Franchisee on how to operate the Franchisee's business – this reflects Post Office's approach to providing advice through its helplines.
- **Problem support** (6.3): Any support provided by the Franchisor to the Franchisee to help resolve problems will be at the Franchisee's cost. There is a slight difference here in that although Post Office's additional support is voluntary, it is provided at nil cost to Subpostmasters.
- **Changes in business** (9.2.2): Both Franchisor and Post Office can change its business model and products for sale.
- **Information / Accounts** (9.3.8 and 10.9) – the Franchisee is responsible for the accuracy of all reports, information and accounts.
- **Audit** (9.2.13 / 13): Both Franchisor and Post Office have a right, but not a requirement, to audit the Franchisee / Subpostmaster. Audit is described in the Precedent (13.1) as an inspection of the business and books – not a full accountancy audit. This is in line with Post Office's use of the word "audit".
- **Responsibility for accounting errors** (13.2) – Franchisee must "*promptly rectify*" any accounting error – again this is very similar to the wording the SPMR Contract.
- **Liability:** The Franchisee is required to indemnify the Franchisor for any loss resulting (i) a failure to follow the business operating practices (9.3.7.3) or (ii) "*any deliberate or negligent act, error or omissions by you or your employees*" (9.3.7.4) - this is almost identical to the SPMR Contract wording.

In any event, the terms of the Subpostmaster Contract are the terms on which Applicants agreed to do business with Post Office. It is the relationship described in those terms that must be applied when assessing Post Office's and a Subpostmaster's actions. It is not open to anyone to look to retrospectively impose new duties on Post Office that did not previously exist. For this reason, Post Office maintains that challenges to the Subpostmaster Contract are outside the scope of the Scheme, which was to focus on Horizon and associated issues. Such an evaluation is also beyond Second Sight's expertise as they are accountants and not lawyers.

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~~This is out of scope.~~

- 11.4. We understand that Post Office does not recommend that its would-be Subpostmasters take legal advice (in regard to the Standard Contract) prior to entering into that contract. This appears to be contrary to best practice procedures. For example, the British Franchise Association recommends that independent legal advice should always be taken prior to signing a franchise agreement. Please provide full details as to why Post Office does not comply with this best practice recommendation?

It is open to all Subpostmasters to seek legal advice at any time and Post Office does not block this in any way.

The reference to the BFA standards is not applicable here. The BFA recommendation is directed to franchisees (in a similar position to Subpostmasters). The BFA does not make a recommendation franchisors (in a similar position to Post Office) to ~~insist~~require on legal advice being taken by franchisees.

- 11.5. Several Applicants have reported their concerns that Post Office employees acted inappropriately in connection with the closure of transfer of their branches. The inference of the majority of the remarks made is that certain Post Office employees acted unprofessionally, either by leaking confidential information (that was damaging to the Applicants) to potential buyers and/or by thwarting their efforts to sell a viable branch until it was no longer viable (and consequently of lower value).

~~This is out of scope. These are very serious, but wholly unsubstantiated, allegations that Post Office denies and has not seen evidence or been provided with evidence to support these allegations. Further, it was as agreed at the Working Group meeting on 15 January that this request for information is too wide.~~

- 11.6. The further inference is that certain Post Office employees seemed to be in some way motivated or incentivised to find reasons to close branches, that were already destined to close under the various closure and re-invention programmes, without cost to Post Office.

~~This is out of scope. These are very serious, but wholly unsubstantiated, allegations that Post Office denies.~~
See answer provided to 12.5.

- 11.7. Please provide full details of the work performed to refute these 'bad faith' allegations.

~~This is out of scope. These are very serious, but wholly unsubstantiated, allegations that Post Office denies.~~

See answer provided to 12.5.

- 11.8. Please provide full details of Post Office's policy and procedures in respect of writing off amounts due from Subpostmasters. Please also provide similar information relating to Crown Offices. Please also describe the write off authorisation limits applicable to different grades of staff.

Subpostmaster write off levels are documented. Please see a copy of the write-off process for agency branches appended at Annex 16.

Losses from Crown Offices form part of the individual Crown Office's P&L and ultimately Post Office's P&L.

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Though reports have been issued to Crown RSMs on levels of losses, it is not a case of authority levels. Tolerance is set at individual level. As a general rule an 'escalation' investigation is initiated after three losses of in excess of £30, although there are variations to this depending on local and individual circumstances. Branch Managers also implement a series of surprise checks on stock units and separately carry out supervisory misbalance checks when a stock unit is showing £30 or more loss on two consecutive daily cash declarations.

Discrepancies can also be identified at the end of each trading period where the Branch Manager undertakes a full cash and stock reconciliation. An 'escalation' investigation can be initiated as a result of errors found as part of that process.

Crown Offices discrepancies are rectified using the same Transaction Correction (TC) process as is used in Subpostoffices. TCs are sent to the Branch Manager who is responsible for accepting or querying the TCs based on the evidence in branch. This process could also identify discrepancies which could result in initiation of an 'escalation' investigation.

Depending on the circumstances, actions against an individual member of staff in cases of persistent negligence or wrongdoing can include disciplinary action, dismissal and prosecution.

- 11.9. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to helping Subpostmasters recover shortfalls that they have made good as a result of proven theft by branch employees.

Recovery of losses caused by theft by branch assistants is a matter for Subpostmasters as the assistants are their employees. Post Office may help, as a matter of goodwill, but there is no policy in this regard.

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12. Post Office Investigations Function

- 12.1. Please provide full details of any criticism of Post Office's (or Royal Mail's) investigative actions or of its employees in any Court judgement or ruling.

This question is out of scope, very broad in scope - it could be interpreted to apply to the whole of Post Office's business and not just those issues under review in the Scheme. Through further discussions with Second Sight, Post Office now understands that Second Sight is looking for criticisms of Post Office's security investigation team and not criticisms of other parts of Post Office's business nor its legal / prosecutions practices.

Although this greater clarity is welcomed, the question still remains premised on an assumption that there is an issue with Post Office's investigation function that would give rise to criticism. To date, no such issue has been identified by Second Sight. This enquiry also needs to be placed in context. Post Office, like all large organisations, is regularly involved in legal processes. It also only separated from the Royal Mail Group in April 2012, prior to which investigation functions were shared across both businesses. There is therefore no single source for the information that Second Sight is seeking.

Against this background, those individuals currently responsible for the security team and legal proceedings at Post Office have confirmed that they are not personally aware of any criticism in a written Court judgment or ruling of the nature described above. For the sake of clarity, no review of historic judgments involving Post Office has been undertaken in reaching these views – such judgments are in any event a matter of public record and could therefore be reviewed by Second Sight.

- 12.2. Please provide a schedule showing the number of requests from Subpostmasters for assistance in investigating discrepancies their branch's accounts for each of the years 1999 – 2013. Please also show for each year the number of requests when assistance was provided.

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of calls to NBSC and HSD from a network of almost 12,000 branches. This request is clearly disproportionate.

- 12.3. Please provide a schedule showing the number of investigations into branch surpluses or shortfalls for each of the years 1999 – 2013 clearly setting out the number of investigations in each category.

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of data from a network of almost 12,000 branches. This request is clearly disproportionate.

- 12.4. In relation to requests for assistance, we understand that, where several instances of the same problem occurs, a 'problem record' is created and the root cause of the issue is identified and fixed (i.e. to avoid further instances). Please provide a schedule of all significant 'problem records' and all process and software modifications (excluding "minor amendments to processes") that have been implemented, in the years 1999 - 2013, that were designed to reduce the frequency and impact of "errors made at the counter".

This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.

- 12.5. Please provide full details and results of any user satisfaction surveys Post Office has conducted into the Horizon system.

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Post Office constantly receives feedback on Horizon from its tens of thousands of users through a variety of sources.

The primary sources are the NBSC, Horizon Service Desk, Branch User Forum and NFSP. Feedback is also delivered through a variety of BAU processes, for example, from contact with the Finance Service Centre, and through discussion in the field with Contract Advisors and Field Support Agents.

That feedback is then implemented through regular system reviews and upgrades implemented by both POL and Fujitsu, and in product development (e.g. to streamline the processes for transacting a new product).

- 12.6. We understand that many of the unexplained branch losses are attributed to "errors made at the counter". Please provide a schedule showing the number and value of unexplained branch losses or "errors made at the counter" for each month for the period 2008 to 2013. Please also provide similar information relating to Crown Branches including the amounts written off each month.

Post Office does not hold this information

- 12.7. Please provide a schedule showing the number and value of ENs and TCs issued to branches for each of the years 1999 to 2013 (we need to see separate volumes and values for Credits and Invoices).

This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

- 12.8. Please provide full details of changes to the Horizon system and/or to its Standard Operating Procedures that were designed to reduce the risk, incidence and severity of errors and fraud, as a direct result of investigations carried out into unexplained branch shortfalls, or in response to problems, vulnerabilities and susceptibility to errors or fraud, for the years 1999 – 2013.

Second Sight has clarified that it is not seeking an exhaustive list of all the changes described above; rather it is seeking a summary of the key changes over this period and brief description of each change. This information is provided below.

- **MoneyGram Automation** – Quotes and financials are now provided directly into Horizon rather than the clerk telephoning and transcribing the rate / amounts.
- **Broadband Sign Up** – Addressing the issue of “slamming” (an illegal telecommunications practice, in which a subscriber’s telephone service is changed without their knowledge or consent) accusations by onscreen “Read to customer...” messages, and key terms being printed on the signed receipt.
- **Bureau Pre-Order** – Order lifecycle is now managed through Horizon to ensure payment is taken at the point of order, and issuance is to the correct customer.
- **Care Quality Commission / Disclosure and Barring Service (DBS) Identity Checking** – There is now automated customer identity verification to ensure key data attribute checks are performed and the correct fee taken.
- **Motor Vehicle Licenses (MVL)** – Stock lifecycle is now automated to track all MVL stock from the point it leaves the warehouse to issuance or destruction.
- **Post Office Card Account (POCA) Card Issuance** – Automation is now in place in terms of the issuance of new and replacement card stock to customers.

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- **Regulatory Compliance Training** – The model has been simplified to allow tests to be rolled out at reduced cost with full auditability based on Horizon user log on.
- **Rod Fishing Licence** – The licence issuance process is now automated for both short term and annual licences; removing the paper licence from branch.
- **Camelot Cheques** – The cheque issuance process is now automated for large prizes.
- **Stock Ordering** – The creation of an online ordering process through Horizon has removed the need to fax / post order cards; product codes and allowable order volumes are now automated to ensure branches received the correct stock.
- **Travel Insurance** – Price look up for policies is now automated, these were previously keyed manually from the brochure look up tables.

This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.

- **Horizon Recovery** – Online transactions with 3rd parties (e.g. MoneyGram) are recovered in the event of, for example, a temporary loss of power or telecommunications to ensure synchronisation of branch, PO datacentre, and 3rd party systems. The situation before the change was that the branch had to remember what transaction they were in when the power/comms went down, and then contact the service provider directly to find out if the transaction had completed.
- **Bureau 2nd receipt** – The production of a duplicate session receipt (necessary for Bank security checks) is now automated, previously the clerk had to remember to print it manually.
- However, it should be noted that Post Office continually looks at ways to improve processes – a good example being **Lottery TA (PING)** – Lottery sales figures are now incorporated into the Transaction Acknowledgement (PING) process that was introduced for Camelot Lottery sales and Scratchcard activation and Paystation transactions. The TA process has mitigated errors in branch and reduced the number of Transaction Corrections issued to branches for these product areas

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branch confirms the system reported figure for the previous days sales when logging in the next morning.

- **Spoilt Postage Labels** – There is a revised process for spoilt postage labels to ensure labels are correctly accounted for and VAT automatically reversed correctly, where applicable.
- **Display of long addresses in postcode lookup** – Screen display has been revised to allow long postal addresses to be displayed on two lines. This has resolved an issue of postcodes not appearing.
- **(pending) Cheque Rem out** – There are plans in place to implement a revised process to bring all elements of the cheque Rem out and despatch onto a single screen, with automation of cheque totals entry, and printing of despatch slip. (expected May 2015)

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13. Surpluses

- 13.1. Please provide full details as to how Post Office tracks surpluses and shortfalls at the end of Trading Periods at both branch level and in aggregate.

This data is not collated by Post Office but at an individual branch level it can usually be reconstructed from the branch's Horizon logs so long as the branch has accurately conducted its end of branch trading processes.

- 13.2. Is it possible that an error which has generated a surplus in one branch can result in a shortfall in another branch? Please provide full details as to how this may occur.

No (except for in connected Core and Outreach branches where remittances of cash between the branches are not correctly recorded by branch staff).

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14. Suspense Accounts

Post Office has already addressed Second Sight's questions on its Suspense Accounts in its Suspense Accounts paper. This paper demonstrated that so long as a branch follows Post Office's standard operating practices, it cannot suffer a loss due to the operation of a Suspense Account.

- 14.1. Please provide full details of all Suspense Accounts held by Post Office. Please also provide a schedule, for each year end between 2008 and 2013, showing the amounts transferred to Post Office's Profit and Loss Account (both debits and credits) for each Suspense Account held.

~~It appears that this question is targeting whether the operation of the Suspense Account could ever wrongfully disadvantage a Subpostmaster. As mentioned above, Post Office has already addressed this question in its Suspense Account paper. Given that the data sought in this question would only show organisation-wide Suspense Account movements, and not branch level data, we should be grateful if Second Sight could clarify precisely what information it is seeking and how this will assist in the resolution of individual cases? Post Office will then look to see what information is available and can be provided to address those issues. In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.~~

- 14.2. Please also provide a schedule, for each year end between 2008 and 2013, showing the balance held on each Suspense Account (both credits and debits).

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.~~

- 14.3. Please provide an electronic report in CSV format or similar showing for the last 3 years the following information for every item posted to any Suspense Account:

- a) Full transaction details;

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.~~

- b) Originator's reference;

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.~~

- c) Any comments or notes associated with the transaction; and

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~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request. In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.~~

d) Full account details of the account the transaction relates to or is being transferred to.

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

~~This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.~~

14.4. Please describe the controls used to detect errors in Post Office client reports that if not corrected could give rise to an incorrect TA or TC being issued.

Where Post Office receives client reports, these are part of matching accounts, where Horizon data is matched to the client data. Therefore, if the client report was wrong, it should lead to a difference compared to the Branch data. Post Office would then investigate that difference. If a wrong approach were made to a branch, the branch themselves could, in turn, challenge it.

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Document 2 ID	interwovenSite://SHARED BOND/4A-LIVE/30138141/1
Description	#30138141v1<4A-LIVE> - FINAL Version 2 of Second Sight Questions Answered
Rendering set	DD Standard

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