

Post Office Branch Audit Trend Analysis YTD Q1 2012/13

Purpose of this paper

- To summarise all audit activity throughout Periods 1-3 2012/13
- To provide an overview of the findings from this activity
- To identify steps to mitigate the risk of potential financial loss to POL.
- To identify lessons learnt from audit activity as a way of informing future post office network audit approach.

Audit Activity – Periods 1-3 2012/13

603 post office planned branch financial audits were undertaken from April 2012 to June 2012 as detailed in the table below. Explanation of audit type is at appendix 1.

Audit Type	No of Audit	Loss under £1k *	Loss £1k - £5k	Loss £5k - £10k	Loss £10k - £20k	Loss £20k- £50k	Loss over £50k	No discrepancy	Gains **	Type of Discrepancy	No of Agents Suspend
5	81	1						77	3	Cash	
10	47	2						44	1	Trans error	5
100	153	90	11	5	2	1		1	43	Cash & stock	7
115	10	6						2	2	Cash	
140	10	3	1	2						Cash	
150	21	13		1					7	Cash	1
160	24	12	1			1			10	Cash	
161	10	8							2	Cash	
175	12	7	1						4	Cash	
200	72	28	16	3	4	3	3		15	Cash & stock	19
250	5		3	1					1	Cash & stock	1
300	153	89	3	1		1		9	50	Cash & stock	2
350	5		3		1	1				Cash, stock, TC	2
Total	603	259	39	13	7	7	3	133	142		37
%		43%	6%	2%	1%	1%	<1%	22%	24%		6%

* 89% of these losses were between £1-500 with 66% being less than £200. ** 75% of these gains were less than £100

Performance against plan Q1 2012/13

Throughout Q1 performance has been reasonably consistent with the 12/13 audit activity plan but with a steady rise month on month in Special Audit requests.

Summary of Audit Findings YTD @ Quarter 1 2012/13

- 54% of all audit types undertaken identified a loss
- 24% generated a gain
- 22% had no discrepancy.

The two main areas of discrepancy were:

- Cash only at 30%
- A combination of cash & stock at 28%.

- Unprocessed or incorrectly processed transaction corrections accounted for 8% of discrepancies.
- 4% included discrepancies in cheques on hand

Please Note:

It is important to note that any discrepancy discovered on audit isn't necessarily the actual loss or gain declared by the agent at the branch trading (done monthly) as the audit verifies the cash and stock on hand at the time of the audit which isn't always undertaken on the Thursday following that branch's trading period date. Some errors that had occurred within the branch trading period (4 weeks) could have been corrected in advance of the branch trading declaration being made.

37 Agents were precautionary suspended as a result of audit activity; this is 6% of audits undertaken. Of these:

- 19 were from 200 Special audits (26% of this audit type) This remains the most effective type of audit activity for identifying loss, with a YTD effectiveness rate of 51% of all suspensions resulting from Type 200 audits
- 7 suspensions (4.5% of this type) resulted from audits identified by the BPP in Q1 with a YTD effectiveness rate of 19% of all suspensions resulting from Type 100 audits
- 5 (13.5%) from type 10 (Robbery/Burglary)
- 1 (3%) from type 250 (FAA that changes to Tier 2 on site)
- 1 type 150 (Random audits) produced 3% of suspensions from this audit type.
- 2 (5%) from type 300 (Post Transfer at 6-9 months)
- 2 (5%) from type 350 (audit following cash check).

Action to mitigate the risk of potential financial loss to POL

Branch Performance Profile

To further mitigate the financial risk to POL the new Branch Performance Profile (BPP) has been deployed since Period 10 2011/12. The BPP introduced in Q4 2011/12 has continued to be used in Q1 to focus on high risk branches, and has driven 153 audits this quarter resulting in a reasonable level of success in P1 with c£73k found at audit resulting in 5 suspensions. In Period 2 this success was maintained, with c£66k found at audit resulting in 2 suspensions. However, during Period 3 the BPP was less successful, with only c£16k found at audit and no resulting suspensions.

In Period 3 only 15 of the 51 audits delivered from the risk model identified a loss and 33 of the losses identified were for less than £1k, with 23 of these for less than £500.

This reveals a trend of decline in terms of successful identification of loss through these data streams and at the end of Q1 no longer reflects the positive performance over Q4 2011/12 in the initial 3 month pilot period when 15 suspensions (8% of type) identified c£278k of loss. The overall position for Q1 is 7 suspensions with an YTD effectiveness rate of 19% of all suspensions resulting from Type 100 risk audits.

The decline in effectiveness of this risk model is a concern and brings into question the validity and accuracy of some of the data feeds. The BPP is owned by the Security Team – a review of the model is already underway to ensure we are focussing audit field resource on the highest risk branches.

Type 200 Special Audit – Special Request usually from P&BA, the Fraud Forum or the Security team in response to concerns – includes check of all cash, stock, vouchers relating back to the previous Branch Trading Statement (BTS). This audit type delivered 19 of the 37 suspensions in Q1 (51%). Losses identified total c£466.7k

Lessons Learnt

- The BPP model** was not as effective in period 3 as it had been since its introduction in period 10, 2011/12.
Action taken – review is underway to understand the reason(s) for the dip in effectiveness and to identify corrective action.
- The special request audit** (audit type 200) continues to be the most effective audit activity.
Action taken – the Fraud Forum reviewed in Q1 the end to end process for initiating a Special Audit with a view to ensuring the robustness of the process in light of a number of experienced people within P&BA moving to the Network Transformation Programme.
- Losses totalling c£748,910k** were recorded at audit in Q1 2012/13 and outstanding debt at audit (debt already in the system) was c£364,181k. Discrepancies in branch are typically as a result of a cash error over the counter (eg not enough cash or too much cash given to or taken from the customer per transaction); incorrect keying in of an amount to the Horizon system (eg entering a £40 manual cash deposit as £400 and only taking £40 in cash would result in a £360 loss on balancing); incorrect processing of documents (eg putting cheques accepted into the mail stream rather than despatching to the processing centre would result in a transaction error notice being received to reverse the value of the cheques from the Horizon system resulting in a loss in branch); fraud or theft within the branch.
 A couple of existing agents have claimed that their discrepancies are as a result of the Horizon system.
Action taken – the process we follow to investigate claims from agents that the Horizon system is generating discrepancies has been reviewed. The refreshed process is detailed at appendix 2.

Overall Conclusion

The analysis of the audit findings for Quarter 1 2012/13 has shown some consistency in the number of branches recording a loss at audit throughout the year at c54%.

The percentage of agents precautionary suspended as a result of their audit findings was 6% - this is consistent with Q1 11/12. As a percentage of the total number of audits delivered, the highest number of suspensions came from Special Audits 200 (19 of the 37 suspensions) and the Branch Performance Profile 100 (7 of the 37 suspensions).

The trends in the audit findings will continue to be analysed on a monthly basis and ongoing learnings will continue to be taken from the audit activity throughout the year and where appropriate improvements made within the year.

Angela Van Den Bogerd
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Appendix 1

Audit Types 2012/13

There have been a number of additions and other changes to the audit codes for this year, to reflect different drivers and priorities during the Network Transformation Programme (NTP). The full and current list is now:

Audit Code	Audit Type
	OTHER

5	BAU Transfer from Agent to newly appointed Agent
10	Branch Transfer to/from Temp Agent
20	Robbery/Burglary
30	BAU Branch Closure Audit
35	Branch Closure Audit following Suspension at Audit
40	Conversion to Mains (existing Agent)
50	Conversion to PO Local (existing Agent)
FINANCIAL	
100	FAA Branch Performance Profile
115	Induction programme support
150	Random Audit
140	WHS(BAU)
141	WHS Audits (FAA Branch Performance Profile)
160	Crown Branch Audits(BAU)
161	Crown Branch audits(FAA Branch Performance Profile)
175	Branch Audit within 6 months, reinstated Agent following suspension at previous Audit
200	Special Request
250	FAA that changes to Tier 2 on site
300	6-9 month Post Transfer Financial Audit
350	Escalation following a cash check
COMPLIANCE	
400	Compliance Audit with Financial Audit (BPP, Random or Special request)
450	6-9 month Post Transfer Compliance Audit with Financial Audit
500	Compliance Only Audit - by appointment
550	Follow Up Audit (BST Compliance Issue)
600	Cash Centre Audit

Appendix 2

