

ROYAL MAIL CONFIDENTIAL

Audit Rating: Substantial Assurance
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POST OFFICE LTD

HORIZON ELECTRONIC

CASH ACCOUNT REVIEW

MARCH 2004

REPORT DISTRIBUTION

To:	Antony Smyth	Ernst & Young, External Auditors
For Information:	David Mills Peter Corbett Dave Miller Vicky Noble Sue Harding Alan Barrie Sue Lowther Rod Ismay Derek Foster	Chief Executive, Post Office Ltd Finance Director, Post Office Ltd Chief Operating Officer, Post Office Ltd Head of Client Accounting & Cash Management, Post Office Ltd Programme Manager IMPACT, Post Office Ltd IT Director, Post Officer Ltd Head of Information Security, Post Office Ltd Head of Risk and Control, Post Office Ltd Internal Audit & Risk Management Director

EXECUTIVE SUMMARY

The Horizon system uses an automated cash account to record transactions carried out over the counter at post offices. The transaction information is transferred electronically to the Counter Business Database

Internal Audit & Risk Management (IA&RM)

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(CBDB) for further processing. The Post Office Ltd financial ledger records transaction summary information from CBDB.

On an annual basis, to support Ernst & Young in their review of Post Office Ltd's financial statements, IA&RM undertake a review of the Horizon system electronic cash account and the system interfaces to CBDB. The purpose of the review is to provide assurance on the effectiveness of the controls over the Horizon electronic cash account and the integrity of the data held on the Horizon and CBDB systems. In accordance with the terms of reference, the review covered all transactions undertaken by Great Moor post office for cash account week 35, 2003/04.

IA&RM can provide **substantial assurance** on the effectiveness of the controls over the Horizon system electronic cash account. No issues were identified over the integrity of the data held on the Horizon and CBDB systems. In particular:

- The cash account for week 35 for Great Moor post office was verified to the underlying documentation and reconciled to both the Horizon and CBDB systems. No discrepancies were found during the reconciliation
- Controls to ensure that the transaction data was captured and transferred correctly at each stage of the process were in place
- Processes to identify errors in the cash account were in place
- Processes to identify and reconcile any errors that occurred during the interface between the systems were in place.

The review identified one issue in relation to the standing **reference data** held on the Reference Data System for the Great Moor post office. The office closing time for Wednesday was logged as 13:00 on the system when in fact it remained open until 17:30. This has no effect on the cash account as the transactions are allocated to the correct cash account week due to the date and time markers that accompany them. The discrepancy in reference data causes a delay of one day in reporting any Automated Payment transactions. In the case of Great Moor the value of transactions affected on the week of the test was not material.

The Reference Data team confirmed that a least one or two cases a month are identified where branches have incorrect opening times on the system.

The IMPACT Programme, which is significantly changing the cash account and settlement process within Post Office Ltd, will rely on Reference Data to ensure that the new system operates effectively. As a result, reference data needs to be effectively maintained.

Agreed Action

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As part of business as usual the Client Accounting & Cash Management Team, supported by Impact Programme, to ensure that verification of the Reference Data takes place.

Owner: Vicky Noble, Head of Client Accounting & Cash Management, Sue Harding, Programme Manager IMPACT

Timescale: 30 November 2004