

Message

From: Simon Baker [REDACTED]

on Simon Baker [REDACTED]

behalf
of [REDACTED]**Sent:** 14 Jan 2013 14:05:58**To:** Rod Ismay [REDACTED]**CC:** Susan Crichton [REDACTED]; Alwen Lyons [REDACTED]**Subject:** FW: Technical/Process Issues where we need input from POL

Rod

Ron has a couple points he needs to dig into – see below. I want to tackle point 2 first as that seem to be the most worrying.

Are you OK with me setting up a phone conference with you Ron and Ian to explain the aggregate point / loss of audit trail. Let me know if I need to include anyone else in the phone call.

Cheers, Simon

From: Ron Warmingto [REDACTED]**Sent:** 11 January 2013 16:22**To:** Simon Baker**Cc:** irh [REDACTED] GRO [REDACTED] rwarming [REDACTED]; Susan Crichton**Subject:** Technical/Process Issues where we need input from POL

Hello Simon. This follows on from our telephone call this morning. As mentioned, there are one or two matters where we need to better understand POL processes and controls and also to substantively test and prove that certain controls and failsafes have worked properly. You asked whether it would make sense to set up a meeting where Ian and I could put these matters before POL experts and deal with them in an intensive half or one day session. I said that I thought that made sense and it does but, having thought it through a little more, and discussed the suggestion with Ian, we think that we should do a little more work before holding that session. What we'd like to do in the meantime is to start listing the issues/matters that need to be addressed... and to call for the supporting data that will be needed to prove or disprove hypotheses that are emerging. So... here are some of the more important issues that we have so far come across:

1. **Lost Cheques:** Rod Ismay sent us an email on 21st December 2012. Rod's email described what happens to ensure that an SPM is properly informed about any lost or bounced cheques. The procedures, as described in Rod's email, and in his attached Process Flowchart, look pretty effective but we will need to come back to this in respect of the Jo Hamilton case, and maybe others where customers have reported that they were never charged (for goods that they have received)... so that we can see what went wrong and where. It is critically important that POL can prove that any failure (to reclaim funds from customers) is due to errors and omissions by the SPMs, rather than by POL. As we've advised, one of Jo's customers (Mr Anthony Hancock) has confirmed to us that several of the cheques that he wrote out and handed to Jo (or to one of her staff) were never cleared through his bank account even though he had the Premium Bonds and other items bought with those cheques. It remains to be seen whether Mr Hancock delivers on his promise to provide more detail on those transactions. In any event, the inference here is that the letters that Jo should have received (as mentioned in paragraph (2) of Rod's email) were either never sent out by the Missing Cheques Team; or they were sent out by them but it were never received by Jo; or they were received by Jo and she failed to act on any of them (and thereby became fully responsible for the resulting losses). What we will need to deal with here is WHAT OTHER

INDICATORS DOES THE SPM SEE TO SHOW HIM/HER THAT A CHEQUE HAS DISAPPEARED. The critical point here is to confirm that, particularly where POL itself lost – or accidentally destroyed - a cheque, the SPM will always have received a completely clear and unmistakeable notification that a cheque of a certain value has been lost. Being confident that POL procedures demand that such a letter is sent, or even being able to prove that such a letter was sent out, might not be good enough. What I'm looking for here is some other failsafe to ensure that, in the event that a letter never arrives, there exists some process that cannot fail to ensure that the SPM clearly – and quickly – receives a notification of the missing cheque. As it happens, no SPM that I've interviewed recalls ever receiving such a letter. Neither does Alan Bates from the JFSA.

2. **Use of Debit Cards to make GIRO Payments and to withdraw cash:** One or two SPMs have told us that the system does not show the composition of the aggregate that is printed (on balancing) for the amount tendered by customers using Debit/Bank Cards. This means that if, for example, ten customers have used their cards to pay their gas/electricity/council tax/etc. bills... and the aggregate of all those ten payments is, say, £2,500.00, that is the only number that the SPM sees at the end of the day, week or month. That aggregate also includes cash withdrawals made by customers using their debit cards. The SPMs tell us that they will have received no paper or other record of the individual amounts, nor of which cards were used. They also tell us that, when a customer makes such a card payment, whilst that customer is handed a Horizon-printed Receipt, **the Teller/Position Clerk receives nothing at all.** It follows that SPMs have to simply 'trust' the figure notified by Horizon... and, significantly, have no way of disaggregating/substantiating/'proving' that aggregate. This is referred to by Accountants as a 'CLOAT' situation (Complete Loss of Audit Trail). We need to drill into this and see whether what we are being told is true... and if it is, then:
 - a. whether it is possible that one half of such a transaction could get 'lost' such that the customer's Utility bill would be paid but the charge to the customer lost. Note: were the opposite to happen, we can be certain that the customer would come back to the branch as soon as his/her Utility company chased them for payment. We can also be reasonably confident that very few of those customers who discovered that their bill had been paid, but that their bank account had never been debited, would be honest enough to report that back to the branch or to POL Head Office.
 - b. we are particularly keen to determine whether one half of such a transaction could be lost in the event of communication interrupts which do seem to be associated – in the minds of SPMs - with such events.
 - c. We need to audit/validate the process of reconciling each day's incoming customer card charges with each day's incoming Utility bill charges and the latter with the amounts sent to/received by the Utility companies themselves. I realise that this all must seem incredibly 'fussy' but Ian and I are convinced that we need to investigate and eliminate every possible reason (other than theft or in-branch error) why SPMs might suffer mysterious shortfalls and, frankly, we have been reading and hearing lots of SPM assertions that "Pin Pad"; "Giro's"; "Debit Cards"; "ATM" and "Communication interruptions" are at the root of these so-called mysterious shortfalls.
3. **Items missing from the 'stack':** We have a number of SPMs who report instances of "items missing from transaction stacks". Examples include postage labels that they say have been printed out and affixed to customers' parcels but then the amount fails to appear on the Horizon-printed transaction listing. The inference here is that, because the label is printed out, then the SPM will be held accountable to pay for it, but if it has 'disappeared' from the stack then the customer will not be charged for it. Were that to happen, then it seems obvious that the SPM would be charged for that postage and so such items would be subsumed into the day's – or week's or month's – shortfall. Lee Castleton has submitted documents that (he says) illustrate this phenomenon. I am not able to prove, one way or the other, whether those documents really do show this... so we will need POL experts on hand to help us examine them.

I feel that it will be best to start dealing with the above three items one at a time, rather than trying to come at them cold in a one-day working session where neither Ian nor I would have sufficient understanding of POL central and branch-level procedures to be able to assess what is said.

Do let us know what you think.

Best regards,

Ron.