

## Post Office Investigations and Findings

1. As noted in Section 4 of this Report, Second Sight identified 17 what they termed 'thematic' issues.
2. Although Applicants have raised a number of issues that relate to similar parts of the Post Office's business, having investigated those cases thoroughly, it is evident those issues turned on the individual circumstances of each case. They could not, therefore, be said to be thematic. For example, although a number of Applicants raised questions in relation to the operation of ATMs:
  - there are number of different ATMs in operation across the Post Office network and operating practices have changed over time (given that cases dated back over 10 years);
  - even for one single ATM there are a number of individual processes that need to be followed (e.g. loading cash, dispensing cash, jammed ATMs, weekly balancing, accounting for retracts, ATM entries on Horizon etc.) and Applicants often only raised issues with one or two parts of the operating process;
  - it is necessary that the conduct of ATM transactions be put in context of the branch under review. Issues such as fraud or theft by assistants, training, etc. may influence the assessment of how any issues with an ATM may have arisen.
3. These factors mean that there are in fact many permutations of ATM related operations that a Postmaster may encounter and nothing that could be called a thematic issue with ATMs.
4. As noted in Section 4 of this Report, now the Post Office has investigated all complaints and applications made to the Scheme, the findings and potential improvement opportunities have been cross referenced with Second Sight's thematic issues. The Post Office's headline findings are at Section 4 of this Report. The following section provides further detail of each of the thematic issues and the Post Office's response to each of them.

## 1. Transactions or transaction corrections not entered by the Postmaster or staff

It was alleged that Horizon transactions appeared to have been entered, or cash or stock balances changed, when the branch was closed and/or no one had access to any of the Horizon terminals. The inference in this allegation is that the Post Office could manually edit a branch's transaction data.

There is no functionality in Horizon for the Post Office or Fujitsu (suppliers of Horizon) to edit, manipulate or remove transaction data once it has been recorded in a branch's accounts. The Post Office can only post additional, correcting transactions to a branch's accounts but only in ways that are visible to postmasters e.g. transaction corrections (TC) and transaction acknowledgements (TA). It is also possible for Fujitsu to view branch data in order to provide support and conduct maintenance but this does not allow access to any functionality that could be used to edit recorded transaction data. Having reviewed all the cases, no-one (including all the Applicants and Second Sight) has been able to identify a specific transaction that did not originate in branch. A number of different explanations were found for the 'unknown' transactions:

- The transaction was conducted by the Applicant but they could not remember the transaction. Horizon logs every input into the system against the unique identity of the user. Each user ID is personal to that user and protected with a password that must not be shared. Where the transaction data was available, the Post Office was able to identify the user entering the questioned transactions. In some cases, this was the Applicant (where the Applicant had confirmed that their password was secure).
- The transaction was entered using the Applicant's user ID but the Applicant had shared their password with other staff members. In these cases, the most likely explanation is that a staff member had conducted the transaction without the Applicant's knowledge.
- A staff member had conducted the transaction with their own user ID without the Applicant's knowledge (albeit that a postmaster is able to determine this himself by accessing the branch records available through Horizon).
- The entries correlated to periods when relief or temporary postmasters were running a branch.
- The entries were conducted by Post Office staff conducting audits of branches and who had logged on to the branch terminals with the Applicant's full knowledge but these entries were determined not to affect the branch's accounting position.

## 2. Transaction anomalies associated with cash or stock remittances

A number of Applicants raised issues concerning 'Rems'. Branches had occasionally reported that a Rem '*pouch*' had not been received or that it contained fewer items, or lower value, than the sender claimed. Similarly, it was said that the Post Office sometimes found that a Rem pouch sent by a branch was missing or the branch had overstated its content. Some Applicants also described instances of foreign currency shipments being accidentally sent to the wrong branch and issues relating to counterfeit notes were also reported by Applicants.

The Post Office found that, on occasions, cash pouches were not being received or there was less or more cash within the pouch than stated. However, processes were (and remain) in place to correct these errors typically in the form of a TC being raised.

It should be noted however that if the cash centre remits a cash pouch to a branch and it is not received this would not result in a loss to the branch. The cash centre would investigate why the pouch had not arrived and ultimately bear the loss. The cash pouch would be scanned upon receipt by the branch and therefore it was only at this stage that the cash would be registered on Horizon as being held in branch. From this point, any loss of cash would be the responsibility of the branch and postmaster.

There may have been some occasions when the pouch barcode would not scan. In such circumstances, the pouch would be entered as received manually by keying in the barcode number. If there is more or less cash within the pouch than stated, the branch should have reported this within 24 hours of receipt. This would have resulted in a loss or surplus to the branch and a TC would be issued to correct the balance on Horizon. This process is however reliant on branch's accurately counting the cash they receive.

The same process outlined above applies to foreign currency. If a pouch was not received by a branch it would not be scanned into Horizon and there would be no increase in cash holdings. If the pouch was not received, there would be no loss to the branch.

Where the pouch was taken to a different branch in error it could be rejected and would be returned to the cash centre. If an alternative branch accepted the pouch, it would be scanned into Horizon and increase the foreign currency held at that branch. TCs would be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

## 3. Transaction anomalies associated with Pensions and Allowances

A small number of Applicants reported problems with Pensions and Allowances (P&A) where the Post Office's Investigators discovered that they, or their branch employees, had stolen money by fraudulently manipulating P&A payments. There were instances of amounts being recorded as having been paid out when they were not (over claims) and Green GIRO cheques or Pension & Allowance dockets being re-used (reintroductions). A postmaster should easily identify P&A fraud by branch staff before any loss occurs so long as he/she conducts proper end of day checks on P&A transactions. For example, and in respect of re-introduction fraud

involving P&A vouchers being entered into Horizon twice, a Post Office branch would only be held liable for any loss if they had been negligent, had not followed correct acceptance and processing procedures or acted fraudulently.

#### **4. Transaction anomalies following telecommunication or power failures**

It was reported branches with unreliable hardware or poor telecommunication and power supplies suffered a disproportionate incidence of problems. A number of Applicants also reported that transaction anomalies had arisen from telecommunication or power failures.

Horizon is capable of handling power and telecommunications problems. In Post Office branches, postmasters are responsible for power supplies and the cabled telecommunications lines. Interruptions in power supplies and telecommunication lines are a risk faced by all IT systems. There are, however, recovery systems built into Horizon to prevent losses occurring where there is a power or telecommunication failure.

There is no evidence to suggest that either of these events would cause losses in branches where the recovery process has been correctly followed by branch staff. There is however evidence of branch staff failing to follow the recovery process properly. This would cause discrepancies in a branch accounts and could be a cause of losses. It is however the result of human error by Applicants or their staff, and not a failing of the Post Office or Horizon.

It is recognised that a power or communications failure could cause severe disruption to a branch and create customer pressure as queues form. However, the recovery process is there to protect postmasters from losses and it is their duty to manage this pressure to ensure that transactions are recorded properly.

#### **5. Transaction anomalies associated with ATMs**

Instructions given by the Post Office in relation to ATMs have been said to be inadequate and that problems have arisen as a result of 'out of sync' issues or retract fraud.

##### **Out of sync**

When postmasters fail to accurately record the amount of cash dispensed from an ATM in the branch accounts, it causes the Horizon record of ATM transactions to be 'out of sync' with the ATM's own record of transactions.

No evidence has been found to suggest that the accounting process, if properly followed, causes any difficulties. In any event, even if a postmaster makes an error, this will be identified and corrected by the Post Office when it reconciles a branch's Horizon record of ATM transactions with the ATM's own records.

It is recognised that this reconciliation may take several days or exceptionally weeks to filter through to a branch and that in the interim period the branch will bear a discrepancy. However, where this discrepancy is identified and agreed with the Post Office the loss in branch can be settled centrally and held until the Transaction Correction is processed.

### **Retract fraud**

Retract fraud occurs where a customer conducts a withdrawal transaction from their own bank account using an ATM. When the cash is vended, the customer looks to remove the middle notes, leaving the top and bottom notes behind, thereby hoping to trick the ATM into believing that the cash has not been taken. The ATM then retracts the cash back into the machine, believing that it has retracted the entire sum withdrawn.

When a postmaster comes to count the cash in an ATM which has been subject to retract fraud, there would be a shortfall between the amount of cash physically in the ATM and the amount recorded on the ATM as being retracted.

However, as long as a postmaster follows the correct ATM balancing procedures and accurately records the amounts of cash in the ATM, the postmaster will not be liable for any ATM cash loss caused by retract fraud. A loss of cash from an ATM caused by retract fraud falls on Bank of Ireland as the ATM provider. It is not passed to a postmaster and there will be no negative impact on a branch's accounts if the postmaster has followed the proper accounting process.

### **Accounting instructions**

The Post Office does not agree that the instructions and support in relation to ATMs is inadequate. No evidence has been provided to support this position.

## **6. Transaction anomalies associated with lottery terminal or scratch cards**

Branch Horizon systems were said to become 'out-of-sync' with the separate Camelot system and thereby generate material surpluses or deficiencies that would eventually be corrected by TCs. These instances were said to have been most serious and frequent between 2005 and February 2010, when the Post Office made a change to its Standard Operating Procedures.

Procedures have evolved to assist postmasters and reduce the number of TCs that is necessary in relation to scratch cards, especially in relation to the activation of them. Changes to the Post Office's Standard Operating Procedures were made to reduce the possibility of having packs of inactive scratch cards recorded in Horizon or having activated packs that were not recorded in Horizon.

Either incorrect/non activation of scratch cards or not correctly recording the out of hours' sales creates the 'out of sync' effect. The lottery discrepancies were due to user errors and not due to either the Post Office or Horizon.

## **7. Transaction anomalies associated with Motor Vehicle Licences (MVLs)**

A small number of Applicants said a misprinted bar code on V11C MVL forms resulted in Horizon recording the sale of a 12-month tax disc, when in fact a six-month tax disc was sold. If this error was not immediately noticed at the Horizon terminal, it was said that a discrepancy, being the price difference between the six and 12-month MVL tax discs, would occur and the postmaster would be held accountable.

The Post Office found that only one Applicant raised a problem with a misprinted V11C form. This was not therefore a '*thematic issue*'.

In any event, the V11C form is not produced by the Post Office but by the DVLA and is therefore an external error. The barcode on the V11C form does not define the duration of the tax disc but the overall cost whether taxing a vehicle for six or 12 months. A V11C is printed with tick boxes for the customer to confirm whether they would like to tax a vehicle for six or 12 months. Upon scanning the V11C, which identifies the registered vehicle, Horizon prompts the user to enter whether the customer wants a 6 or 12-month tax disc. If the barcode printed was incorrect this could lead to a charge based on a different vehicle, which could be potentially more or less than the appropriate charge if the vehicle identified by the barcode is in a different tax band to the customer's actual vehicle. If there were an error with a barcode, it would be an issue with the tax banding, not whether a vehicle is taxed for 6 or 12 months. This issue could benefit or disadvantage the customer. However, Horizon would invite payment at the level requested by the barcode. Provided that payment was taken for the amount requested by Horizon, the branch would not suffer a loss as there is no loss or gain from the transaction from the branch's and the Post Office's perspective.

## **8. Transaction anomalies associated with foreign currency**

It was reported that some of the Applicants had described instances of foreign currency shipments being accidentally sent to the wrong branch.

As stated at 2 above, if a branch does not receive a pouch it would not be scanned into Horizon and there would be no increase in cash holdings. If the pouch is not received, there is no loss to the branch. Where the pouch was taken to a different branch in error it could be rejected and returned to the cash centre. If an alternative branch accepted the pouch it would be scanned into Horizon and increase the foreign currency held at that branch. TCs would be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

## **9. Transaction anomalies associated with bank / Giro / cheques**

It was reported that some cheques got lost when being sent from branch to the Post Office or were accidentally spoiled at the Post Office's main processing centre in Chesterfield. It was suggested that branches were being improperly held liable for these lost or damaged cheques.

If the correct procedure for processing the cheques in branch is followed by postmasters, no loss is caused. The cost of a lost or bounced cheque is only passed to a postmaster where there is clear evidence that the postmaster has failed to follow proper acceptance or remittance processes and the Post Office has exhausted all other possibilities of recovering the missing cheque.

The branch accounts treat cheques like a stock item. So long as the branch accurately records the receipt of cheques from customers and the remittance of cheques to the Post Office, then the branch is not concerned with the banking of any cheques. The banking of cheques and recovery of payment from customer's bank is conducted by the Post Office. The Post Office absorbs the credit risk posed by accepting payment by cheque and should a cheque bounce, the Post Office will absorb the resulting loss. The only exception to this rule is where the branch has failed to follow operational procedures. This may have included not completing the details in accordance with a cheque guarantee card (until these ceased in 2011) or taking payment for a product where payment by cheque is not permitted.

## **10. Transaction anomalies associated with stamps, postage labels, phone cards or premium bonds**

The Post Office was asked to describe the procedure whereby postmasters can recover the cost of a missing postage label in circumstances where the missing label has not been processed as a 'reject'. The explanation has been provided and there is no evidence that any of the issues reported were caused by anything other than human action.

## **11. Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation**

The most commonly raised issues concerned printers, PIN pads, touch screens, telecommunications equipment and base units.

The Post Office's position is that while hardware issues are undoubtedly inconvenient for branches, there is no evidence that such issues are capable of causing discrepancies in the branch accounts. Equipment is replaced as and when needed, this is industry standard practice. The average time that equipment remains in service before being replaced is:

- Horizon terminal: 7.41 years
- PinPad: 6.17 years.

The Post Office considers that these performance levels are acceptable and show that equipment is not routinely failing.

## **12. Failure to follow correct procedures or mis-advice by Post Office Limited's Helpline**

Though all calls to the helpline are recorded by the Helpline operators in the NBSC call logs it has been asserted that the call logs often do not provide enough detail about exactly what advice was provided.

The Post Office considers that if Applicants calls were not being answered or addressed appropriately then either the matters would be escalated (which would be noted) or there would be repeated calls about the issue that the postmaster was facing. There would be evidence that the advice had not resolved the problem or the Applicant was not happy with the advice. The absence of this or other evidence to the contrary suggests that the calls had generally been resolved satisfactorily.

There is no evidence of a systemic failing in Post Office's Helpline support and therefore this is not a thematic issue but rather one that turns on the specific advice given in particular cases.

## **13. Training and support issues including helpline and audit**

Thousands of postmasters, in receipt of the same training and support as Applicants to the Scheme, have been operating the Horizon system successfully for years. Like any other responsible organisation, the Post Office always strives to improve its training and support and has undertaken further initiatives since the publication of Second Sight's report in 2013. The Post Office created a new Branch User Forum as a way for postmasters and others to raise issues and insights around business processes, training and support, feeding directly into the organisation's thinking at the highest level. One of the tasks for this forum is to review support processes and training to ensure they meet the standards expected of, and by, the Post Office.

The training of new postmasters is an area that Post Office has recently reviewed and identified that by using modern technology a proportion of the existing classroom training could be delivered online. Although the duration of the on-site training remains unchanged, postmasters and their staff will be able to access online training at any time and from a location that is convenient for them. An added benefit is that this online training will be accessible to the whole network and not just new postmasters.

Technology has also been used to reduce paperwork and administration time within the support team. The overall impact of these changes means that fewer people are needed to deliver an enhanced level of support to the network.

Where, in what is a small number of individual cases, the Post Office has found that the support provided in that case has fallen short of the appropriate standards, those issues have been addressed as part of the investigation and review process.

It has been suggested that it is ineffective to rely on postmasters to identify on-going training needs in their branches.

There are a number of factors that can affect a branch's performance and the need for training e.g. changes in an Applicant's assistants, changes in the way a postmaster may operate his/her business, seasonal pressures, changes to the connected retail business, lifestyle issues affecting a postmaster etc. None of these factors will be known to the Post Office but will all be known to the postmaster. The Post Office therefore considers that it is most effective for each postmaster to be tasked with seeking further training rather than it being proposed by the Post Office.

Also, the Post Office is only required to train postmasters – postmasters are required to train their assistants as they are entitled to employ as many assistants as they like and deploy them in any role they wish. It could be that a postmaster is fully competent but has poorly trained his/her assistants which in turn could be causing losses. This is a matter for a postmaster to monitor and remedy and it would be inappropriate for the Post Office to interfere in this employer to employee relationship.

#### **14. Limitations in the transaction audit trail available to postmasters**

A number of Applicants, whilst acknowledging some errors were caused by their own mistakes, claimed that they were often unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon because the underlying transaction data was not available to them. Applicants' claims fell into three categories:

- data that is not available even on the day of the transaction;
- data that was at first available, but after 42 days (later extended to 60 days following a system change by the Post Office) is no longer available which may inhibit a postmaster's ability to challenge TCs;
- data that isn't available after suspension, meaning that some postmasters were unable to defend themselves from any claim made by the Post Office for the recovery of monies.

The position in relation to each of these categories is that:

- all branches have access to line-by-line transaction data each and every day;
- while it is correct that after 60 (previously 42) days all Horizon data is no longer accessible via Horizon, this level of information is not required to challenge TCs. The data needed to challenge a TC varies on a product-by-product basis. Typically, the necessary data is kept in branch records (e.g. branch daily reports which are retained for two years) rather than on Horizon. The Post Office offered to investigate any product specific allegation that there is insufficient data or

information available to postmasters to challenge and review TCs but no such allegation was made;

- branch records are the property of the Post Office. In the event of a postmaster being suspended, the Post Office may take away some branch records for investigation. In the event that a claim was made by Post Office for the recovery of monies, the relevant branch records would have been provided to the postmaster as part of the disclosure process, if not before.

If, at the end of a day or the end of a trading period, a branch discovers that it has a discrepancy it has access to a range of reports on different products and transactions which can be used to investigate the possible causes of the discrepancy, including a complete line-by-line listing of all transactions that day. A postmaster can also call the Post Office Helpline for advice on interpreting that data.

## **15. Process issues at the end of each trading period**

A number of Applicants stated that whilst they considered their initial training to be adequate in terms of 'Business as Usual' transaction processing, they believed it was predominately sales-focused and weak in regard to 'end of day', 'end of week' and in particular, 'end of trading period' balancing. A number of which felt that there was little or no coverage of how to deal with discrepancies (both surpluses and shortfalls), how to identify the root causes of recurring problems or how to deal with TCs.

It was also suggested that the Post Office provided little help to Applicants when trying to find the cause of losses and that this lack of support may have been a motivation for some Applicants to submit falsified accounts to the Post Office.

### **Training**

No evidence or analysis has been presented that shows that the Post Office's standard training is defective, the Post Office stands by its training practices as being effective. The Post Office considers that the training and support that is provided is fit for purpose and adequate to meet the needs of postmasters. This is proven by the thousands of postmasters who are successfully operating Horizon, having received Post Office training.

### **False accounting**

Some Applicants suggested that when they discovered a discrepancy they had no option but to conceal it by inflating cash or stock figures to balance the accounts so that they could continue to trade the following day. The reality is that when a postmaster encounters a discrepancy they may either accept it, on the basis that they are responsible for it, or dispute it which triggers a further investigation. This does not affect their ability to continue trading. Any suggestion that a postmaster must commit a crime in order to continue trading is categorically not true.

It is however true that where an Applicant submits false entries in their branch's accounts in order to cover up losses, then this makes finding the root cause of those losses very difficult if not impossible. The Post Office primarily relies on reviewing the branch accounts to help postmasters identify errors but because where accounts have been falsified, it is not possible to distinguish between genuine errors and intentionally false entries.

### **Post Office's investigation support**

As noted above, support is available from the Post Office Helpline in relation to dealing with discrepancies. Further support is also available from the Post Office's Finance Service Centre (FSC).

FSC could become aware of issues owing to:

- a branch calling FSC directly or being referred to FSC via the Helpline;
- FSC identifying an anomaly in a branch from its accounting records;
- a customer raising an enquiry to the Post Office about a transaction in a branch.

FSC works with a branch to try to identify the cause of any erroneous transaction. This may include speaking to the branch about how they have conducted the transaction, asking the branch to provide missing customer details, checking the paper records held at the branch against the transaction data on Horizon, liaising with clients (whether customer banks, utility companies, etc) to gather different data streams on a transaction and contacting customers to get their consent to remedy errors.

It is, however, noted that the Post Office is unable to determine the precise nature of some errors as, by their very nature, those errors happen in branch at the counter and are therefore outside of the Post Office's knowledge or control (such as mis-keying a transaction into Horizon or taking the wrong amount of cash from a customer in payment). Only a postmaster is able to identify these types of error and only they have the requisite knowledge of what happens in their branch.

### **16. The contract between the Post Office and postmasters**

This issue is comprehensively addressed in Section 8 of this Report.

### **17. The lack of an outreach investigations function**

This issue is merged with item 15 above.

### **Other**

Though a number of further issues have been raised and described as 'thematic', no evidence or analysis has been presented to suggest a systemic failing in any part of the Post Office's business exists.

