POL00104779

Post Office Ltd - SECURITY POLICY

Document Information

Title	Accounting Losses Policy for Agency Branches
Category	Standard
Subject	Treatment of accounting losses incurred within the network
Version Control	1.0 February 2003 – Replaces all previous draft versions
Author	Audit & Inspections Manager
Owner	Head of Security & Audit
Purpose	To document accounting of losses
Audience	Retail Line, NBSC, Security & Audit Staff
Keywords	Accounting Loss
Privacy level	Retail Line, NBSC, Security & Audit Staff
Document format	Arial 12
Document type	Electronic (MS Word. Doc), Paper,
Review date	Annual
Expiry date	Ongoing subject to review

Approval

Role	Name(s)	Date
Business input	Original Policy, Duncan McFayden, Steve Gibbs, Jackie Ilesley, Eddie Herbert, Mike Denison, Neil Salter, Steve Rooney, Danny McDonough, Joanne Hancock, John Holden, Panther workshops (via Michael Dadra)	Various during five draft stages
Assurance	Tony Marsh, Head of Security and Audit	
Authorised	Head of Security and Audit, Post Office Ltd	

Version control

Version No.	Reason for issue	Date
1.0	Revision of original policy, following transfer of ownership, including amendments following input from a wide range of interested parties	February 2003
1.1	Minor textual amendments to reflect required appeals process	March 2003

POL00104779

ACCOUNTING LOSSES POLICY

FOR AGENCY BRANCHES

POL00104779

SECTION 1 - INTRODUCTION AND PURPOSE

Aside from the direct cost to Post Office Ltd of losses that are ultimately written-off, all losses involve associated administrative costs in dealing with the errors that cause them and managing suspense accounts, many also lead to client penalty payments.

Given the impact that losses have on Post Office Ltd costs and profits therefore, this policy is defined to provide clear and consistent guidelines for the treatment of accounting losses within the agency network (both commercial and community segments).

The overall purpose of the policy is to:

- ensure probity, objectivity and conformity across the network;
- clarify roles and responsibilities;
- ensure equality and fairness of treatment of Subpostmasters and other agents.

For the purpose of this policy, the term “agent” refers to all people or companies operating sub-post office branches under contract to Post Office Limited and the pronoun “he” refers to people of either gender. The term “retail line manager” applies to the Post Office Ltd employee with direct responsibility for the control of the relevant branch

From a purely contractual perspective, the agent is responsible for all losses caused through his own negligence, carelessness or error. He is also responsible for losses caused by the actions of any assistants, managers or relief personnel employed by him. This policy, consistent with the contractual relationships between Post Office Ltd and its agents, is designed to clarify circumstances where mitigation may be appropriate and to provide a clear framework to handle individual cases.

SECTION 2 - PREVENTION OF LOSSES

The most effective way of reducing losses in post office branches is to prevent them occurring in the first place. It is therefore essential that there are good accounting practices in place and that business procedures are complied with in branches, as poor accounting practices may lead to carelessness and unnecessary losses.

It is the responsibility of the agent to ensure that the accounting and operational procedures and practices employed in the branch conform to the current business standard for branches of that type. It is the retail line manager’s responsibility to satisfy themselves that this is the case and to provide advice, guidance and instructions where it is discovered that this is not so.

POL00104779

SECTION 3 - AUTHORITY TO HOLD LOSSES

The Subpostmaster's contract requires that losses are made good without delay. Immediate settlement is therefore the expected contractual norm.

Under certain exceptional circumstances losses can be held in the suspense account for a maximum of 8 weeks. These circumstances require the agent to justify the reasons for not making the loss good immediately. Before any authority to move a specific loss to the suspense account is given therefore, the agent must have completed their own investigation and be able to show that an error notice is likely to be issued for that loss or an element of the loss.

Authority to hold an accounting discrepancy must be sought via the National Suspense Account Team at the Network Business Support Centre (NBSC). The loss needs to be identified against a known error that has been made and the likelihood that an error notice will be issued. If there is no known error (and, therefore, no error notice likely to be issued), authority will **not** be given.

To give authority to hold losses within the suspense account, even with evidence of the error, is against the principle of right first time. Granting authority to hold amounts in suspense should therefore always be considered to be the exception rather than the norm. Agents are also expected to address the underlying cause of misbalancing and consequently agents will not be expected to seek subsequent authority to carry further losses within the suspense account relating to errors of a similar nature.

Where authority is given, it will only be provided for the amount of loss discovered above a threshold amount (£150 for those in the community segment and £400 for those in the commercial segment) and providing that no other losses are held in suspense at the time. A unique reference number will be allocated to any authority, which the agent should note for audit purposes.

Where the agent cannot demonstrate that a loss is due to an error within a specific client's area of work but is unable to make good the loss immediately, authority may be sought to hold the amount in the suspense account for up to four weeks. During this period, the agent's case for hardship should receive consideration by the appropriate retail line manager. Further details on hardship relief are given at section 4. A hardship case must have been submitted and accepted within four weeks or the loss made good by the agent.

In all instances where error notices are issued, they should be brought to account in the next available cash account and any authority to hold a loss in suspense account will consequently be rescinded.

POL00104779

SECTION 4 - POLICY ON RELIEF

Occasionally, there may be exceptional circumstances that allow for relief (either repaying the loss by instalments or writing-off part of the loss). The main circumstances where consideration may be given are:

- losses incurred by a new agent, during the first six weeks of appointment;
- where there is clear evidence of financial hardship.

In the case of a new agent, consideration can be given to providing partial relief for a loss. In considering this, it is important that the retail line manager take account of the agent's overall performance since appointment, the size and nature of the branch concerned (including staffing arrangements before and after the transfer) and that he establishes whether the loss occurred whilst the trainer was present. He should obtain the trainer's view of the competency of the new agent as well as any audit report. In considering giving relief, the retail line must ensure that the agent has completed an investigation into how the loss occurred and amended their operating or accounting practices to ensure that a similar loss cannot occur again.

Any loss must be made good by the agent and should not be held in the suspense account pending a decision on relief. However, if it is likely the loss is due to an error that will result in an error notice, authority may be given to hold the loss in the suspense account.

The data collection proforma for assessing hardship is at Appendix B. For the purposes of this policy, hardship is defined as "Financial circumstances where the cost of making good a loss will equate to a value higher than the working capital of the business".

In agreed hardship cases, the preferred option is to allow repayment of the loss over a 12 month period. However, the repayment period can be extended (by Head of Area authority) where this is considered the most suitable option in order to prevent bankruptcy or a partial or full write off. Where repayment is authorised, the following criteria must be met:

- losses are made good by deduction from remuneration;
- the repayment period is a maximum of 12 months, unless an extension is authorised by the Head of Area;
- any credit error notices relating to the same cash account week as the loss should be used to reduce the outstanding balance;
- during the repayment period, any further losses should be made good immediately;
- should either party terminate the contract for Post Office services, the whole amount will be paid in full immediately.
- losses have not been incurred due to poor accounting and/or poor operational practices.

In exceptional circumstances, relief may be given by writing-off part or all of a loss, the provisions at section 5 on the accounting impact of losses on the retail line manager's personal or team Profit & Loss (P&L) account will however apply in all cases.

POL00104779

SECTION 5 - WRITE-OFFS

Decisions in respect of write-offs are not taken by groups but are the responsibility of individual managers, who bear P&L accountability for those decisions. The reasons for a write-off must be fully documented and may be subject to audit.

A write-off voucher (detailed at Appendix A), signed by an authorised signatory, must be used in line with the following levels (referring to the amount written off, not the amount of the loss where that is different):

Up to £2,000	Retail Line Manager
£2,001 to £50,000	Head of Area
Over £50,000	General Manager

To ensure that write off decisions are reviewed against business policy and to review the impact on Post Office Ltd P&L, a financial concurrence must be obtained in all write off proposals in line with the following levels:

Up to £50,000	Refer to segment Finance Manager
£50,001 - £100,000	Refer to Head of Operational Finance and Planning
Greater than £100,000	Refer to Head of Operational Finance and Planning and then to Finance Director for final endorsement

SECTION 6 - HORIZON ISSUES

If an agent feels that an error has occurred via the Horizon system, it is essential that this be reported to the Horizon System Helpdesk (HSH). The HSH will only consider the incident for further investigation if the branch has evidence of a system fault. If no evidence is available, the case will not be investigated and the agent will be held responsible for making good the loss.

System faults are very rare and are normally identified after a full investigation has been undertaken. All known system errors are managed through Network Support Problem Management. Access to Problem Management is via the NBSC. If the agent feels that the issue is not being resolved, they should flag the issue up with NBSC. If a known system error has caused a shortage, the agent should be given authority to hold the loss in suspense until the system error has been reconciled and an error notice issued.

POL00104779

SECTION 7 - REMITTANCE DISPUTES

As a result of Bank of England rules, all cash centres in England and Wales must be automated by June 2003. Centres located in Scotland and Northern Ireland however do not currently face such a requirement. As a result the network of cash centres is split into automated and non-automated cash centres.

The very significant investment made by Post Office Ltd in processing and image capture and recording equipment in automated cash centres means that the accuracy of notes supplied and processed at these sites is of an extremely high standard and all relevant processes take place under automated CCTV supervision. The notes processing procedures at non-automated sites are still considered to be fully acceptable, however the level of verification available at those sites is less than that achieved at automated sites.

As a result of this there are two separate approaches to adjudging liability for losses caused by reported discrepancies in remittances between branches and cash centres and vice versa, depending on the status of the cash centre.

Non-Automated Cash Centres (Scotland and N Ireland) will operate the following principles:

For discrepancies in note remittances from non-automated cash centres to Post Office branches, all discrepancies will normally be the liability of the sending unit, i.e. if a Post Office branch discovers a shortage within a “non-automated” remittance the discrepancy will be borne by the cash centre, unless otherwise proved.

For discrepancies in note remittances from Post Office branches to non-automated cash centres, all discrepancies will normally be the liability of the sending branch i.e. if a non-automated cash centre discovers a shortage within an inward remittance the discrepancy will be borne by the despatching branch, unless otherwise proved.

Automated Cash Centres (England and Wales) will operate the following principles:

Subject to the detailed provisions below it is not anticipated that undetected discrepancies will occur in remittances from automated cash centres to Post Office branches. As a result therefore claims will not normally be accepted from branches for alleged shortages in note remittances supplied by automated cash centres. Any such reported discrepancies will be the liability of the receiving branch i.e. if a Post Office branch reports a shortage within an automated remittance the discrepancy will normally be borne by the receiving branch.

Due to the effectiveness of the automated image capture surveillance of the inward remittance opening process at automated cash centres, it is anticipated that clear evidence will exist to support any discovered discrepancies in note remittances from Post Office branches to automated cash centres. As a result therefore all discrepancies will normally be the liability of the sending branch i.e. if a cash centre discovers a shortage within an inward remittance the discrepancy will be borne by the despatching branch.

POL00104779

The principles outlined above will apply where the relevant criteria detailed below have been met in full:

- all notes dispatched to Post Office Branches have been integrity checked;
- the high speed notes sorting equipment is calibrated daily (i.e. a known quantity is counted and verified) and records maintained;
- the operation of the high-speed note sorting equipment is under cover of high resolution CCTV;
- adequate processes are in place to ensure the integrity of notes held in storage;
- the outward remittance process is structured in such a way that the following can be witnessed on the CCTV system;
    - the appropriate numbers of bricks are laid out on the processing bench in a way that allows remote verification;
    - the placement of bricks into the security container can be witnessed;
    - the sealing of the security pouch can be witnessed;
- the inward remittance process is structured in such a way to allow the discovery of a discrepancy to be witnessed on the CCTV;
    - the opening of the pouches and the contents should be visible under camera;
    - the inward remittance processor must remain within camera coverage at all times until a supervisor has verified the discrepancy;
- records are maintained of any CCTV system down time.

Note: In the event of the CCTV system being out of commission, or the integrity of the note sorting equipment being in doubt, the rules governing the discrepancy process revert to the non-automated cash centre rules for the given period i.e. the receiver is deemed to be correct. Cash centre processors must adhere to processes laid down when undertaking these duties, any evidence to the contrary will result in a presumption in favour of the branch.

Automated cash centres are equipped with state of the art CCTV. Cameras will cover inward and outward note processing so evidence of notes despatched and notes received can be scrutinised in the event of claims. In the event of disputes, agents will have the right to appeal. An independent panel will scrutinise CCTV footage for adherence to processes before making a judgement.

Discrepancy reporting and appeals

For both automated and non-automated cash centres, shortages must be reported within the following timescales:

Full block - 24 hours
Individual notes - within 5 days

The following information is required to support discrepancy claims from agents:

Missing Brick of notes
(NBSC script to confirm whether supplying centre is Automated or Non-automated)
Branch (FAD)
Dates
Pouch Number & Physical pouch retained which has been correctly opened
Evidence of pouch integrity (e.g. no tears)
Value of shortage
Name of person opening pouch and second check officer (if practical)

Missing Individual Note
(NBSC script to confirm whether supplying centre is Automated or Non-automated)
Branch (FAD)
Dates
Pouch Number
Band around notes to be retained
Value

NBSC will inform the agent where the outward notes process is automated and monitored by CCTV. If there are no known errors or problems with equipment at the cash centre the agent will be asked to make good the loss. If the agent is unhappy with the decision and wishes to appeal, he will be asked to put his appeal in writing to the NBSC within 7 working days.

Appeals will be heard by a national panel, which will be chaired by a senior manager from the Post Office Ltd Security team and will include an NFSP representative and a senior manager from cash centre line management.

On receipt of a letter of appeal NBSC will send a questionnaire to the agent to complete. The agent must complete and return the questionnaire within 14 days of the initial call to NBSC. NBSC will then inform the appeals panel of claims to be reviewed and will ensure that camera evidence is safeguarded until the panel are next due to meet.

The appeals panel will meet as required dependant on levels of appeals and will review all evidence for relevant claims. In particular the appeals panel will:

- review relevant camera footage to ensure that necessary criteria are fully met;
- consider any other relevant information;
- communicate the decision to the agent, retail line manager and cash centre manager, with a detailed rationale to support the decision;
- record details of claims rejected/accepted and any follow up action required i.e. cash centre to review procedures where criteria were not fully met.

The processes for dealing with remittance disputes are illustrated in Appendices C-G.

Note: Coin discrepancies will be dealt with as for non-automated sites, as camera footage will not be available for this element of the remittance and the likelihood of large discrepancies in this area is minimal.

POL00104779

SECTION 8 - LOSSES REVEALED AT AUDIT

Auditors working for Post Office Ltd Security visit post office branches as part of a programme of audits.

The agent is advised of any loss revealed at the audit and is required to make it good immediately, as would happen for any other accounting losses.

If the agent is unable to make the loss good at the time of the audit, proposals to make good the loss will be sought from the agent and these will be detailed within the audit report. Regardless of the statement within the audit report however, treatment of the loss should follow the process outlined in section 3 of this policy.

SECTION 9 - NON-DEPLOYMENT OF THE POLICY

If it becomes evident that an agent has not applied this policy, e.g. holding losses without authority or beyond the authorised period, there are three stages to be followed.

Stage 1 should be applied to an agent who has not previously been found to be in breach of the policy and should involve promoting awareness of the policy with the individual agent.

Stage 2 relates to an agent who continues not to apply the policy, for example by continually holding unauthorised losses in suspense. In such cases the retail line manager should advise the agent in writing of the consequences of not applying business policy.

Stage 3 relates to an agent who continues to ignore business policy on accounting losses having been formally advised in writing. In these circumstances consideration must be given to the agent's suitability to continue under their contract for service.

POL00104779

APPENDIX A

RETAIL LINE WRITE OFF AUTHORITY VOUCHER

BRANCH ……………………………………………………..

BRANCH FAD CODE ……………………………………

COST CENTRE CODE ……………………………………..

AMOUNT £

AMOUNT IN WORDS ………………………………………………………………….

LOSS DESCRIPTION (record narrative details below)

<u>Prepared by Retail Line Manager/Contracts Manager</u>
(supporting papers available for review by concurring personnel)

Name (in block capitals) ………………………………

Signature ……………………………………………………

Date ………………………

<u>Operational Concurrence</u>

Name (in block capitals)

Position

Signature of Authorisation

Date

Position

<u>Financial Concurrence</u>

Name (in block capitals)

Position

Signature of Authorisation

Date

Position

POL00104779

APPENDIX B

FINANCIAL HARDSHIP CASE

Please provide the following details for annual income and expenditure.

BUSINESS DETAILS

Income

Retail Sales
Less Cost of Sales
PO Remuneration
Int Allowances
Other (please specify)

TOTAL (1)

Overheads

Wages
Gas
Electric
Telephone
Printing/Stationery
Accountancy Fees
Insurance
Motor Expenses
Uniform Business Rate
Water Rates
Rent
Repairs
Bank Interest/Charges
Loan Repayments
Taxation
Other (please specify)

TOTAL (2)

NET PROFIT (3)
(1) - (2) = 3

PERSONAL DETAILS

Income

PO Drawings
Interest on Savings
Spouses Salary
Other (please specify)

TOTAL

Overheads

Mortgage/Rent
Council Tax
Electric
Gas
Water Rates
Telephone
Motoring Expenses
Housekeeping
Clothing
Other (please specify)

TOTAL

Please provide details of funds available from your own resources.

Bank/Building Society
Stocks/Share
PEPs/TESSAs/ISAs
Premium Bonds

What do you take out of the Business as personal income (drawings)

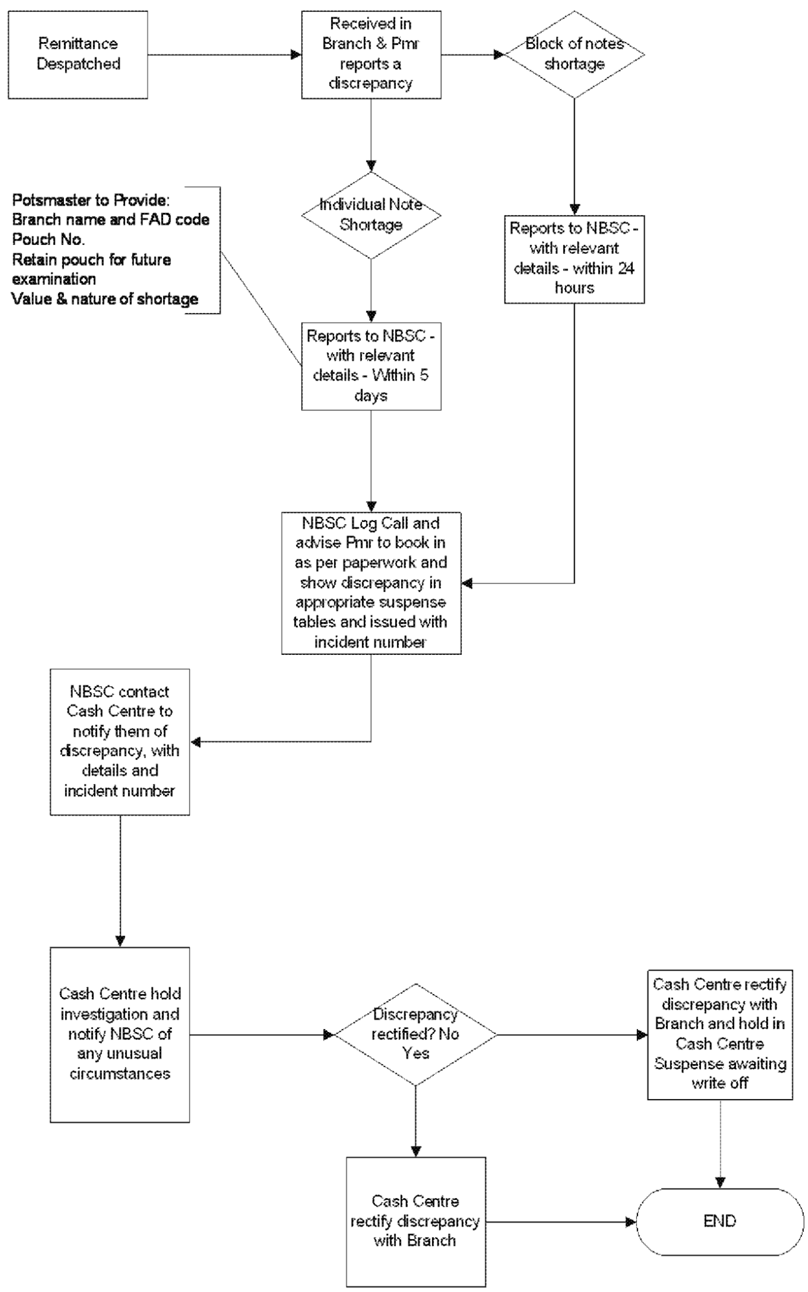
NB: PLEASE NOTE THAT YOU WILL BE REQUIRED TO PROVIDE SUPPORTING DOCUMENTATION TO SUBSTANTIATE THE ABOVE INFORMATION. (e.g. LATEST SET OF ACCOUNTS).

POL00104779

APPENDIX C

January 2003

Non-Automated Cash Centre - Outward Remittance Discrepancy Process



Notes:

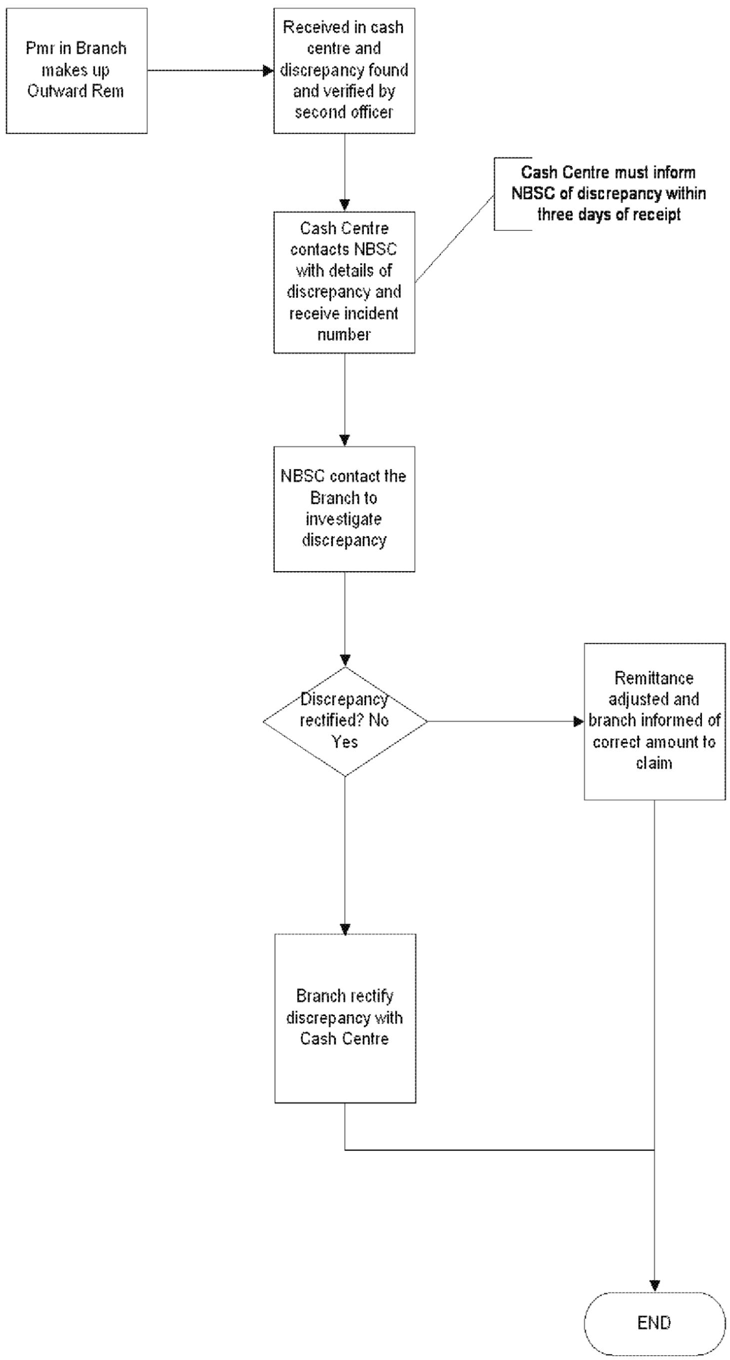
- Whatever the outcome, Pmr should always book value as per paperwork.
- PMR should raise missing brick within 24 hours, individual notes within 5 days.
- PMR should NOT accept any pouch if integrity of the seal/pouch is broken.
- Pouch needs to be opened as directed, eg scissors along line indicated

POL00104779

APPENDIX D

January 2003

Non-Automated Cash Centre - Inward Remittance Discrepancy Process

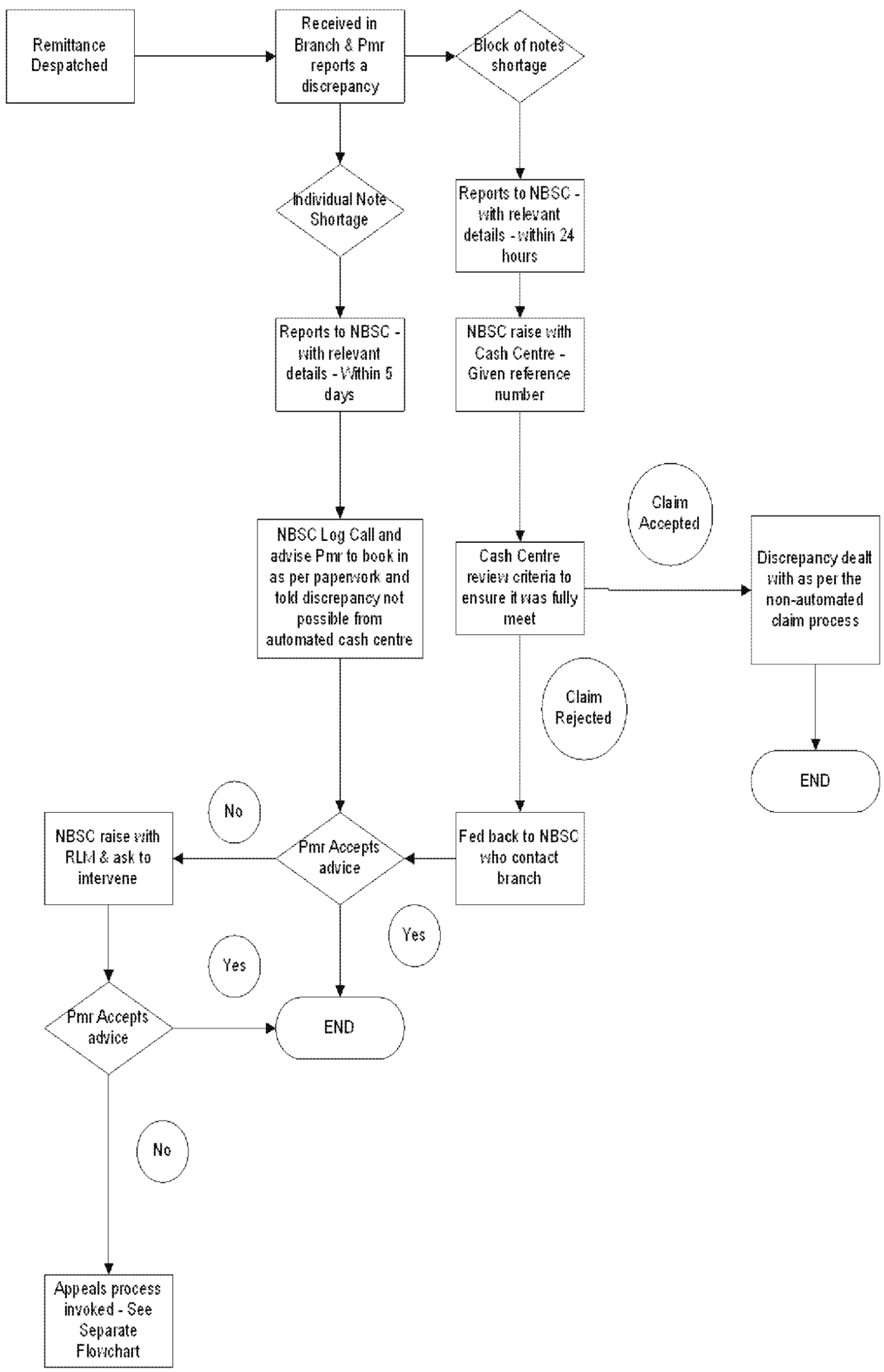


POL00104779

APPENDIX E

January 2003

Automated Cash Centre
- Outward Remittance Discrepancy Process

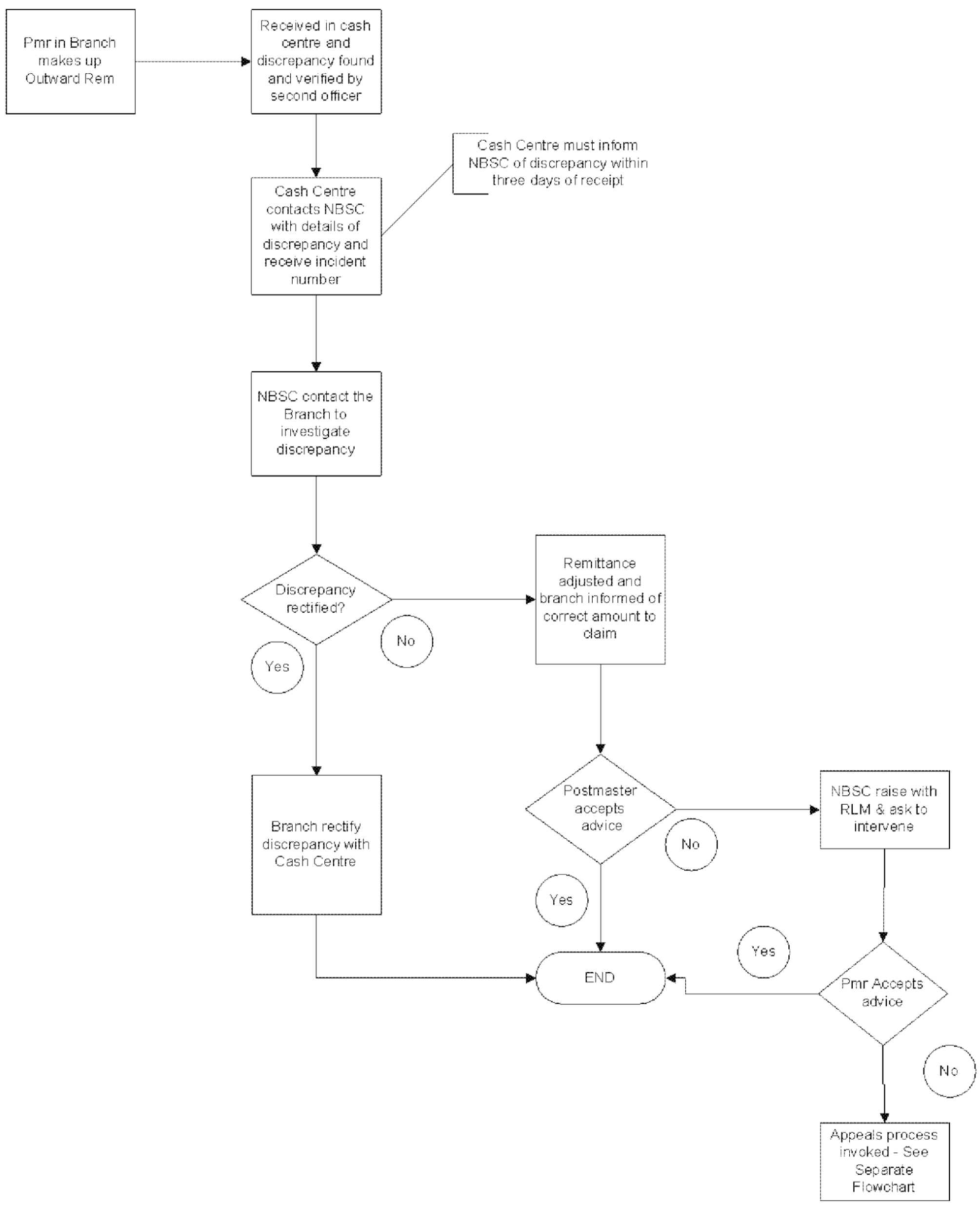


POL00104779

APPENDIX F

January 2003

Automated Cash Centre - Inward Remittance Discrepancy Process



POL00104779

APPENDIX G

Appeals Process for Automated Cash Centres

January 2003