

DRAFT – Not for circulation outside Working Group

29 April 2014 – V8

Initial Complaint Review and Mediation Scheme

BRANCH OPERATING PROCEDURES

PREPARED BY

SECOND SIGHT SUPPORT SERVICES LTD

1. Introduction



1.1. This report describes relevant aspects of Post Office branch operating procedures and some of the related functions of the Horizon system. It is not intended to be an exhaustive explanation of every practice or procedure of Post Office, but focuses on providing a factual underpinning of the *Thematic Issues* identified by Second Sight during the Complaint Review process.

1.2. This report is based on information provided by Post Office and other sources. A glossary of Post Office terminology is provided as *Annex 1* and examples have been included to demonstrate how a particular individual transaction or process operates.

[POL TO PROVIDE ANNEX 1]

2. Structure of this document

2.1. This document comprises seven major sections providing:

- General information about Post Office, its branches and the role of Subpostmasters;
- A description of the training and support functions as well as the Post Office audit and investigation processes;
- An overview of the Horizon system and associated equipment;
- An introduction to the application of double entry accounting in Horizon;
- A description of branch operating procedures and the processing of significant transactions as considered relevant to the Complaint Review and Mediation Scheme;
- Details of branch reporting and management processes; and
- An analysis of typical errors .


3. Post Office Branches and Subpostmasters

3.1. The Post Office was part of the Royal Mail Group until the two businesses separated in April 2012. The majority of its income is self-generated, but it does receive financial support from its ultimate shareholder, the UK government. It directly employs almost 8,000 people in addition to approximately 6,000 Subpostmasters and employees of "Multiples" (see below).

[CONFIRMATION IS REQUIRED OF THESE STAFF NUMBERS AND A RECONCILIATION BETWEEN NUMBER OF STAFF AND NUMBER OF BRANCHES]

Summary of Comments on BOP V8.docx

Page: 2

 Number: 1 Author: ap6 Subject: Sticky Note Date: 29/04/2014 12:53:05 +01'00'

The basis for this document is to assist the mediation process - not to justify the thematic issues report

- 3.2. Post Office's network of around 11,500 branches provides a range of approximately 170 products and services, as set out in *Annex 2*, including banking and access to government benefits.

[POL TO PROVIDE ANNEX 2]

Subpostmasters

- 3.3. The majority of Post Office branches are run by independent Subpostmasters and are known as "Agency" branches. Subpostmasters are, in the main, individuals who are contracted to run Post Office branches. They are individual contractors rather than employees of Post Office and their position can be considered as being similar to that of a franchisee.

- 3.4. Before appointment as a Subpostmaster, the applicant is vetted by Post Office for suitability and is appointed under the terms of a standard contract (see below for more details).



- 3.5. In some instances, Post Office charges the Subpostmaster a fee before allowing them to operate the branch.

[POL TO CONFIRM AND PROVIDE DETAILS OF AMOUNTS CHARGED]

Temporary Subpostmasters

- 3.6. In the event of a Subpostmaster being either suspended, or his/her contract being terminated, a Temporary Subpostmaster may be appointed to take over the running of a branch.
- 3.7. Temporary Subpostmasters operate the branch and receive remuneration from Post Office under the same contract terms as Permanent Subpostmasters, except that their notice period is one week rather than three months. The terms under which a Temporary Subpostmaster will operate from an incumbent Subpostmaster's premises will be agreed between the parties. Typically, this involves the Temporary Subpostmaster paying a weekly or monthly "rent" to the incumbent Subpostmaster.



- 3.8. Post Office keeps a list of pre-approved Temporary Subpostmasters who can be called upon at short notice and although Post Office cannot force an incumbent Subpostmaster to allow a temporary Subpostmaster to take over a branch it is, in most cases, highly encouraged in order to allow continuity of service.

Subpostmaster's contract

- 3.9. The majority of Subpostmasters currently provide services to Post Office under the terms of a standard contract. Although subject to several revisions over the years, it is understood that the core principles of the contract have generally remained unchanged.
- 3.10. Under the terms of the contract, Subpostmasters are remunerated based on a combination of fixed and variable amounts calculated according to the volume of business that they transact.

Page: 3



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Not correct any more.


Relevance - this is not in dispute in any CQR that I can recall

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Removed section on Temps paying rent to SPMRs - this is important as it justifies suspension without pay


- 3.11. In terms of carrying out Post Office business, the Subpostmaster is an agent of Post Office. In legal terms, Post Office business is a transaction between the customer and Post Office Limited, with the Subpostmaster acting as Post Office's agent to complete the transaction.
- 3.12. As the Subpostmaster is not undertaking business in his own name, the cash and stock held at a branch is owned by Post Office and in effect, the Subpostmaster acts as a steward of this cash and stock. Consequently, Subpostmasters are contractually liable for any loss of cash or stock in their branches if that loss is caused by their carelessness, negligence or error (*contract clause 12(12)*) or by the carelessness, negligence or error of their assistants (*contract clause 15*).
- 3.13. If cash or stock is lost due to the fault of the Subpostmaster, the Subpostmaster is obliged to reimburse Post Office for that loss. ² The contract also ³ (unusually in normal commercial terms) provides the right for a Subpostmaster to withdraw and retain any surpluses that arise in the normal course of business (*contract clause 12(14)*). 
- 3.14. Errors by Subpostmasters can sometimes result in a Subpostmaster's contract being suspended and/or terminated, and/or action being taken through the civil courts to recover any related loss. An evaluation of the significance and seriousness of any such errors and losses, together with any associated action, is determined by Post Office usually after an "audit" of the branch has been carried out (see below).
- 3.15. Where Post Office discovers evidence of criminal wrongdoing, it may exercise the right to bring a private criminal prosecution. Typical criminal prosecutions are for theft or fraud, including false accounting (the latter where a Subpostmaster has declared transactions or stock or cash levels within the branch which the Subpostmaster knows are not true). Post Office sometimes refers these prosecutions to the police/national prosecution service (i.e. the Crown Prosecution Service in England, Wales and Northern Ireland and the Procurator Fiscal's office in Scotland).
- 3.16. However, in the vast majority of cases, Post Office will undertake a private prosecution of the Subpostmaster.
- [SUGGEST INCLUDING AS ANNEX 3 A COPY OF THE CURRENT CONTRACT WITH AN AUDIT TRAIL OF RECENT SIGNIFICANT CHANGES – POL TO PROVIDE] 
- 3.17. A Subpostmaster does not need to be personally involved in the running of a branch and may employ assistants to conduct branch business. In some cases, a Subpostmaster may employ a Manager to run his/her branch and may have only minimal personal involvement in the provision of his/her contractual services and day-to-day operations.
- 3.18. Each Subpostmaster typically owns (or leases from a third party landlord) the premises from which the branch is run. Other than Post Office setting minimum standards for the premises (in terms of legal ownership rights, physical security, etc.) it is the Subpostmaster's responsibility to provide and operate the branch premises.

Page: 4

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Comment on "normal commercial practice" is opinion not factual - remove


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Big task - not needed - provide relevant extracts only.

- 3.19. The premises may often be part of an existing business such as a convenience store, typically referred to as the "retail business". Part of the premises may be used for transacting Post Office business and the Post Office equipment, cash and stock is generally kept away from the retail business although the new "local model", which is being introduced as part of the Network Transformation Programme (see below), is changing this position.

Branch types

- 3.20. ¹ Although the focus of this review relates principally to the operation of "Agency" branches,  ² there are other types of branches within the Post Office network, which are staffed in a different manner, more akin to a normal commercial operation. These include "Crown" branches and "Multiples" as described below.

Crown

- 3.21. There are around 350 "Crown" branches that are directly owned and run by Post Office. The staff at Crown branches are employees of Post Office Limited and each branch is run by an employed "branch manager" rather than a Subpostmaster.
- 3.22. Staff and managers of Crown branches are employees of Post Office and, unlike Subpostmasters, are not liable for losses as these are directly absorbed by Post Office. The operating procedures at Crown branches are however largely the same as those at "Agency" branches, including the operation of the Horizon system.

Multiples

- 3.23. Branches are sometimes located in premises operated by larger businesses, for example, Cooperative convenience stores or WH Smiths. These larger businesses tend to have multiple branches and are therefore called "Multiples". The operating procedures at "Multiples" are also largely the same as those at "Agency" branches.

The Network Transformation Programme

- 3.24. The Network Transformation Programme (*NT Programme*) that is currently underway, is seeking to change the way that Post Office services are offered in branches with particular reference to the hours during which Post Office services and products can be provided
- 3.25. Under the NT Programme, Agency branches are being transferred to either a "Main Branch" model in which a dedicated Post Office counter, physically separated from the Subpostmaster's own retail business, will be maintained or a "Local Branch" model which fully integrates Post office services within the retail business. This will allow Post Office services to be offered for longer hours than before, and may help to resolve some of the issues about hours of opening, end of day cut off procedures and the need to keep separate records where Post office products are sold from the retail business - see comments below relating to National Lottery products.

Page: 5


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This suggests that the position with agency branches is abnormal - not correct. Remove this opinion.

The National Federation of Subpostmasters (the NFSP)

3.26. The NFSP is the organisation recognised by Post Office to provide support to and negotiate on behalf of Subpostmasters nationwide. The NFSP works very closely with Post Office on a range of issues including security, operational systems and technology and negotiates with Post Office on the rate of payment for services and products transacted by Subpostmasters. Its monthly magazine, 'The Subpostmaster', provides information on issues affecting Subpostmasters and a 24-hour helpline gives advice on staff contract issues, but does not provide Horizon-related technical assistance.

3.27.  Representation and guidance is available to Subpostmasters from the NFSP in the event of disputes, although the extent and quality of this assistance has been questioned by a number of applicants.

4. Training, Support and Auditing

4.1. This section summarises the various training, advice and support functions provided to Subpostmasters and how these have evolved over the years. An overview of the Post Office audit and investigation function is also provided.

NBSC


4.2. The Network Business Support Centre (NBSC) was established in December 1999 to provide help and support to Subpostmasters and their staff.



4.3. The NSBC's mission is primarily to provide assistance to Subpostmasters with problems arising from the processing of transactions carried out through Horizon, as well as how to address and deal with mistakes and issues arising out of the monthly branch trading statement (see below).





4.4. New NBSC staff themselves receive a four-week training course and ongoing training on new products and services as they are introduced.

4.5. Through quality monitoring and coaching, Post Office identifies gaps in the training of NBSC staff and provides further support to advisors, although reported experiences indicate that the quality of support and product knowledge may be variable.

4.6. Post Office currently employs 70 people within the NBSC to receive calls, undertake second line support as required and carry out administration roles. Given the limited number of NBSC staff and that most queries from Subpostmasters in the 11,500 branches relate to the monthly end of trading process (see below) the potential peaks of call volumes has been smoothed by grouping branches in order to stagger their month end timetables. 

4.7. The NBSC operates a two-tier escalation process. If the NBSC advisor is unable to initially resolve the query/issue with the caller, the call is escalated to Tier 2 where more expert advice can be provided. If this still does not resolve the issue, the Branch Support Team will decide if further training or face to face branch support, which is outside of the NSBC's remit, is required.

Page: 6

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	Opinion - again remove.			
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	This sections only makes sense if the report first explains what Horizon is. This needs re-ordering.			
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	Is this correct - this is not from the Facfile.			



4.8. ² We understand that the performance of the NBSC staff is (unusually) measured solely on the time advisors take to answer the phone. The target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (i.e. where the caller hangs up before reaching an advisor).

4.9. We also understand that, in the event of a complaint, the NBSC's target is to resolve 95% of complaints within 10 working days.

4.10. ³ The adoption of these response driven rather than quality driven performance metrics may contribute to the concerns expressed by a number of applicants as to the quality of advice and support received from the NBSC and the Horizon Service Desk. ⁴

Horizon Service Desk (HSD)

4.11. In addition to the NBSC, Subpostmasters can access Horizon On-Line Help and may contact the Horizon Service Desk (HSD), which is operated by Fujitsu.

4.12. HSD deals with technical issues concerning Horizon, for example, where Horizon appears to be "offline" or there are login issues. In the event that a technical issue cannot be resolved over the telephone HSD can request an engineer to attend the branch to investigate the issue further.

4.13. ⁵ number of calls by Subpostmasters for support are made to the wrong helpline and have to be redirected. This may of course indicate a lack of clarity and understanding by Subpostmasters as to whether problems encountered are system or procedurally related, especially if calls are not promptly returned to the Subpostmaster as promised by either the HSD or the NBSC ⁶


Field Support

4.14. Post Office has a dedicated Field Support Team responsible for induction and on-going transactional training for all Subpostmasters. Currently the team consists of 227 Field Support Advisors (FSAs) who, together with 18 Field Team Leaders (FTLs), provide training and support to branches. In addition, they deal with Subpostmaster queries and carry out audits.

4.15. The Post Office network of branches and Subpostmasters is currently managed as three distinct groups. The first two of these groups, "The Top 2000" and "The Next 2000", are individually managed with a clear focus on sales potential and performance, rather than providing operational support, although non-sales issues can be addressed if required.


4.16. The third group are classed as "Branch Support" branches. They are not pro-actively visited and do not have a manager assigned to them, resulting in their first point of contact and support being the NBSC. There are a number of escalation points depending on the nature of the issue and, ultimately, if the Subpostmaster experiences a problem that cannot be resolved over the telephone, a visit by a Field Support Advisor can be arranged.

Page: 7

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Again - opinion - remove


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Remove - analysis not fact

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Analysis - not fact - remove

4.17. ² is however clear from cases reported to us, that this procedure has, on occasions, either ¹ not been followed, or did not work, or did not produce the needed results.

4.18. As noted above, the Field Support Team is responsible for matters such as:

- Delivering classroom training to all new Subpostmasters who are going through the NT Programme;
- Training on site following a branch transfer;
- Requests from branches for remedial training by FSAs throughout the year;


NB The Subpostmaster will normally receive the training and is then responsible for training his or her own staff

- Undertaking Compliance and Financial audits, which can also include providing further training to Subpostmasters on matters which may arise out of issues identified by the audit.

4.19. In addition to the Field Support Team, there are others within Post Office who provide training and support, either on a face to face basis or remotely via the telephone. These include Mail Development Managers (for branches which receive a high volume of mail) and the Branch Standards Team.

4.20. The Branch Standards Team was established in 2009 as a telephone-based intervention team. The team regularly contacts branches regarding a wide range of performance issues and errors whilst also ensuring that the branch is aware of the correct operational procedures to follow.

4.21. There are a number of other teams across Post Office who may also come into contact with Subpostmasters (such as product specific teams like the National Lottery team). The Subpostmaster can request further visits and training for through the Field Support Team.





4.22. ³ Despite this description of an apparently extensive support mechanism, feedback during ⁴ Complaint Review process has indicated a lack of consistent, constructive advice being provided, especially from the Horizon Service Desk and from the NBSC.

Training


4.23. New Subpostmasters will normally receive training both prior to and after taking up their position in branch. Training can cover matters such as how to transact products and services; reconcile the day's transactions; "*remming*" in and out cash and stock (see below); and despatching cheques to processing centres.

4.24. Subpostmasters are also advised on how to balance the branch on a weekly basis, roll over into the next weekly balancing period and how to balance at the end of the monthly "*trading period*". As part of this training, Subpostmasters should be shown how to verify transactions

Page: 8

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	Opinion			

and the cash and stock on hand if discrepancies arise; how to accept or to challenge Transaction Corrections (see below); how to make good any losses and gains; and how to raise issues about errors/discrepancies.

- 4.25. ¹As set out below the nature of this training has evolved over time and although seemingly comprehensive, examples reported during the Complaint Review process have shown that the quality of the training may not be consistent or, in many cases, may simply be insufficient. The type of training Post Office has offered in the past is as follows: ²

2001 – 2002

- 4.26. Classroom training was offered to new Subpostmasters followed by ten or eleven days of onsite training and support. This would be followed with one day of follow up support on how to carry out balancing at the end of the trading period, referred to as “balance support”.

2003 – 2006

- 4.27. Between five and ten days of classroom training was offered to new Subpostmasters (the training being optional) and five to ten days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance support.

2007 – 2011



- 4.28. New Subpostmasters received five, eight or ten days of training on foundation, sales and other specialised modules. Six days of onsite training and support was provided, followed with one day of follow up balance support. In 2007, after a pilot scheme, follow-up telephone calls were introduced at intervals of one month and six months after a branch was taken over by a new Subpostmaster, with a one-day site visit taking place three months after the branch was taken over.
- 4.29. A Subpostmaster may choose not to attend training, or only attend part of a training session if, for example, he or she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training has been provided, it is the responsibility of the Subpostmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is for the Subpostmaster to ask for further training and/or assistance if it is required.
- 4.30. In 2012, as part of the wider steps being taken to “transform” the network, Post Office tailored its training depending on the specific role being undertaken and rolled out further training depending on, for example, the experience of the Subpostmasters, the type of contract they would be operating and the number of employees they have.
- 4.31. The precise training given to a Subpostmaster therefore depends on a number of factors such as whether the Subpostmaster is completely new to the role, whether he/she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (i.e. Main or Local) and the types of products and services to be transacted.

Page: 9

	Number: 1	Author: ap6	Subject: Highlight	Date: 29/04/2014 13:15:58 +01'00'
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Unsupported opinion

4.32. Post Office has undergone a number of structure reviews which have influenced the support Post Office provides to Subpostmasters and their branches. As a result, Post Office's approach to structuring its agency relationships with Subpostmasters has evolved over time with an 
 increasing focus on business development and sales performance.

4.33. Branch classifications, roles and titles have changed with Retail Line Managers and Performance Advisors becoming Sales Managers and Area Performance Managers who by 2008/9 were replaced by Commercial or Community Business Development Managers. The Business Development Manager role has itself now been replaced by an Area Sales Manager function.

4.34. Also, in 2008/9, the transactional training team, previously functionally part of Post Office's HR department, was renamed as Network Field Support Advisors and the Financial Audit Team was merged with the Network Field Support Advisor team. As a result, Field Support Advisors now conduct both training and audits in branches.

Auditing

4.35. In order to monitor and validate performance, Post Office will often conduct audits of branches. This allows Post Office to assure and verify its assets, which are held in branches and to ensure compliance with regulatory and business requirements.

4.36. Audits will normally take place:


- When a risk at a branch has been identified (e.g. the branch is continually suffering shortfalls);
- On the appointment of a new Subpostmaster;
- On the transfer of the branch to a new Subpostmaster (a further audit will often take place between six and nine months after the date of transfer); or
- Following a robbery or burglary in support of loss mitigation.

4.37. As it is not possible for Post Office to visit and audit every branch each year, it also undertakes audits whereby branches are selected at random to be audited. As well as the normal cash and stock verification and evaluation of adherence to Post Office's systems and practices this approach also assists with the risk profiling of branches.

4.38. The precise nature of the audit will depend on the reason for the audit being undertaken, but will normally be restricted to a simple count of cash and stock. As such, it has only limited value in investigating and understanding underlying causes of errors and losses. Within this context audits will usually include checks such as:

- For branches with paystations or lottery terminals, ensuring any overnight Transaction Acknowledgements (see below) have been properly accepted;
- Checking the cash declaration for the previous trading day;


Page: 10

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This is SS' unsupported opinion - it is not taken from the Factfile

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- Counting and recording the amount of stock and the cheques held in the branch against the record maintained on Horizon; and
- Verifying any foreign currency held in branch.



- 4.39. This may sometimes be followed by a Compliance Audit to ensure that regulatory and business requirements are being followed. If compliance issues are identified this may be followed up by the Branch Standards Team who will identify and assist the Subpostmaster in rectifying the compliance issues. If an issue cannot be rectified by the Branch Standards Team, the Team can arrange for a Field Advisor to visit the branch and/or for further training to be provided.
- 4.40. The results of the audit should normally be discussed with the Subpostmaster but, in the event of financial irregularities, an audit may result in the Subpostmaster being asked to “*make good*” the loss (i.e. to reimburse the loss to Post Office from the Subpostmaster’s own funds). It may also result in a Subpostmaster receiving what is termed a “precautionary suspension”, of both contract and remuneration.
- 4.41.  ¹ The use of the term “*audit*” to describe a simple cash and stock count, even if supplemented by ³ Compliance Audit, is potentially misleading and has been challenged by many Subpostmasters. It also appears that associated training needs are not always consistently identified or delivered.

5. Horizon and associated equipment

- 5.1. As an understanding of the operation of the Horizon system is fundamental to an appreciation of many of the issues raised in the Complaint Review and Mediation scheme this section provides a broad description of how Horizon is structured and operates, as well as giving information relating to other equipment used in Post Office branches, including Automated Teller Machines (ATMs).
- 5.2. Horizon is the electronic point of sale IT system used in all Post Office branches to undertake transactions (from selling stamps to cash withdrawals and currency exchanges). In 1995, Post Office commissioned the development of the system from the company now known as Fujitsu Services Limited and the system itself has subsequently been accredited by Payment Card Industry Data Security Standard and ISO.
- 5.3. The *Horizon* bespoke system comprises the following elements:
- Computer hardware and communication equipment which is installed in each branch including touch screens, counter terminals and printers;
 - Central Data Centres where transaction data from every branch is stored;
 - Control and monitoring systems; and
 - Testing and training.
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Page: 11

	Number: 1	Author: ap6	Subject: Highlight	Date: 29/04/2014 13:19:32 +01'00'
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	The systems does not include training - it is an IT system			

- 5.4. The following brief description reflects the way in which the current version of Horizon, known as "Horizon Online" or "HOL" operates. This was rolled out by Post Office in 2010 as part of its Horizon Next Generation (often referred to as "HNG-X") Programme to provide a simplified network based on the centralised processing of data. The main changes, compared to the earlier Horizon system, principally affected the way in which each terminal communicated transaction data to the central Post Office Data Centres and did not significantly impact on the actual use of the system in each branch.
- 5.5. Prior to the introduction of HOL, the data relating to each transaction was processed and stored by a master terminal in each branch before being transmitted, in batches, to a central Post Office Data Centre. Under HOL, each branch terminal now communicates directly with a Post Office Data Centre on a transaction by transaction basis.
- 5.6. In order to function Horizon must be "online" and each terminal connected to a Post Office Data Centre via a secure communication line with a back-up system, normally comprising a mobile phone connection.
- 5.7. Transactions on Horizon are entered physically on a terminal in a branch and can normally only be processed (and subsequently identified) by a valid, approved user with a user ID and an associated password. 
- 5.8. Individual transactions are conducted through a series of what are known as "conversations", each of which has a unique sequential serial number. Horizon records all data centrally in the Branch Database in the Post Office Data Centre and a copy of all transactions is also made to a separate audit server where they are stored independently. We have been told that a limited number of security personnel at Post Office have read-only access to this audit server. 
- 5.9. Financial data is stored for a period of seven years, in line with Post Office data retention policies, after which it is systematically destroyed. This time limit has, in some instances, posed serious barriers to subsequent investigations.
- 5.10. There are also a number of checks built into Horizon to ensure the integrity of the data. Data passing from Horizon to third parties or to Post Office's "back office", for example, are driven from one source to ensure that every recipient receives the same data.
- 5.11. Financial transactions such as banking withdrawals and card payments are matched against the customer's bank's view of the transaction (i.e. if £100 has been withdrawn at a branch, this will be recorded in Horizon and will be matched against the bank's record that £100 has been withdrawn) and if discrepancies arise they will be addressed following Post Office's procedures as described below.



Connectivity

- 5.12. Each Horizon terminal requires a direct connection to the central Post Office data centres in order to process transactions. Each branch communicates with a Post Office data centre where all transaction data is sent, and this Post Office data centre in turn communicates with Post

Page: 12

Number: 1	Author: ap6	Subject: Sticky Note	Date: 29/04/2014 13:22:31 +01'00'
What does "normally" mean? Transactions can only ever be processed in branch if a user is logged on.			
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Is this correct - I thought that only FJ could directly access the data.			
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New section that needs checking by POL - but looks ok.			
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If this section is included - then should also include a para explaining that the comms line is provided by the SPMR and is their responsibility.			

Office's clients (such as banks, the Royal Mail, DVLA and local authorities) in order to complete transactions.

- 5.13. The communications equipment in each branch needs to be connected to both a power supply and a communication channel in order to complete customer transactions. Connectivity issues can arise and may cause operating difficulties and errors, for example, when there is an interruption in the power supply or a breakdown in the communications line.
- 5.14. All Horizon transactions are conducted over a secure virtual private network between the terminal in the branch and the systems within Post Office Data Centres, which allows private data to be shared securely across the internet.
- 5.15. When serving a customer, transactions for some products send information directly to Data Centres during the transaction (e.g. moneygram, online banking, postal orders). These are known as "recoverable transactions", whereas some require no interaction with the Data Centres until the customer transaction is completed on Horizon (e.g. mail transactions and automated bill payments). These are referred to as "non-recoverable transactions".
- 5.16. If there is an interruption to the power supply during a customer transaction, there is a possibility that transactions may not have been fully and properly captured at the Data Centre. Horizon will normally check to determine whether there are any incomplete transactions following an interruption and if possible will try to remedy the lack of data.
- 5.17. The user should be prompted, once the system is reconnected and the user is logged back on, with a message containing instructions on how to recover the interrupted transaction. The message should confirm whether the customer's transaction was completed and whether any payment needs to be received or made.
- 5.18. Whilst this is how the system should operate, it would appear that the nature of these instructions is not always logical or clearly set out and there is a risk of transactions being lost. The steps which need to be taken (as directed by Horizon) will depend on whether the transaction is "recoverable" or "non-recoverable". 
-  5.19. Similarly, if there is an interruption to the communication channel and/or a failure to automatically connect to the mobile backup device during a customer transaction, Horizon will try to prompt the user with on-screen messages explaining what to do to and whether to cancel or retry the transaction.
- 5.20. If the Horizon messages are not clear or are not clearly displayed for sufficient time, or if the user does not follow the recovery instructions correctly, this can have a result in a failure to process the customer's transaction and later result in a balancing error.
- 5.21. Fujitsu (see above) proactively monitors the primary and back-up connectivity between branches and Data Centres and, if alerted to a connectivity issue, will normally investigate and try to resolve the issue as soon as it is detected.

Page: 13

Number: 1	Author: ap6	Subject: Sticky Note	Date: 29/04/2014 13:26:23 +01'00'
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Number: 2	Author: ap6	Subject: Sticky Note	Date: 29/04/2014 13:28:19 +01'00'
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The system "will" do this - not just "try" to do this.

- 5.22. There is also a risk of hardware failure, but this should be visible to Fujitsu and may in some cases require branch equipment replacement (see Branch Error Analysis section below).

Associated equipment

- 5.23. Within a Post Office branch there may be various pieces of equipment used to conduct specific transactions. A description of the main items and the main operational requirements is set out below.

ATMs

- 5.24. In 2005, Post Office awarded a contract to Bank of Ireland to provide ATMs in its branches. Bank of Ireland is a member of LiNK (the UK network of ATM providers). It provides and installs the ATMs in Post Office branches, delivers training and offers technical and maintenance support. It is also responsible for the settlement process (between Post Office and each customer's bank account) and handles customer queries about ATM transactions.
- 5.25. Post Office provides space, cash, cash-loading, basic first line maintenance services and accounting support for ATMs.
- 5.26. On installation of an ATM, operational training is provided by Wincor, a sub-contractor to Bank of Ireland. When responsibility for a Post Office branch, which already has an ATM, transfers to a new Subpostmaster, ATM training is provided by Post Office as part of its standard training package.
- 5.27. Each branch is also provided with a Bank of Ireland ATM Operator Manual on how to use the ATM, which includes descriptions of how to load cash into the ATM, how to obtain the ATM "totals" receipts and how to use the ATM's Cash Management menu. Each branch is also provided with "Accounting Instructions for Bank of Ireland ATMs" which explains how activity on an ATM should subsequently be recorded onto Horizon by the Subpostmaster.
- 5.28. Each day, the Subpostmaster must print from the ATM a "totals" receipt that provides the number/value of withdrawal transactions and retracted cash transactions (where a customer forgets to take their cash and it retracts back into the ATM). The data from this receipt must be manually input into Horizon by the Subpostmaster. In the rare circumstance of a retracted transaction, the retracted cash must be physically removed from the ATM, counted, and the amount also recorded on Horizon.
- 5.29. Once a week, the Subpostmaster should remove and count all the cash in the ATM and manually record this figure on Horizon (in addition to recording the totals shown on the ATM receipt as described above).

PayStation

- 5.30. A PayStation is a standalone payment device that is located either behind the Post Office counter or in the retail part of a Post Office branch. It allows customers to carry out certain bill payments, E-Top ups, as well as make electricity key and Quantum gas card top ups.
- 5.31. PayStation is predominantly used as a cash-only payment device although it does have the facility to accept debit card payments. The PayStation equipment in each branch consists of the main terminal along with a magnetic card reader and a barcode scanner, which are provided by a separate company, Ignenico.
- 5.32. PayStation works as a simple operational interface and is activated by either a barcode scan or card swipe. The PayStation machine can also be operated manually. Once a transaction completes, receipts are printed for both the customer and Branch.
- 5.33. PayStation transactions usually require third party authorisation. For example, a mobile telephone top up request will go from the terminal to the mobile network provider who will then confirm that the mobile telephone network is correct, that the customers' handset is a prepayment telephone and will then issue a unique code for the customer to get credit.
- 5.34. The Subpostmaster obtains from the PayStation terminal a daily record showing that day's transaction totals. Overnight, the PayStation terminal reports the day's transactions to the Post Office data centre which in turn sends a Transaction Acknowledgement (see below) to the branch. When logging on the next day, the Subpostmaster checks the Transaction Acknowledgement against their receipts and on confirming the Transaction Acknowledgement, the branch's cash position on Horizon is adjusted accordingly to reflect the value of the previous day's transactions.

Lottery

- 5.35. National Lottery products are provided and serviced by Camelot UK Lotteries UK Ltd. These transactions are processed through a separate on-line terminal in each branch. This stand alone Lottery or Camelot terminal is not directly connected to Horizon. The Lottery terminal can be located behind the Post Office counter but in most instances, it is located on the retail side of the branch.
- 5.36. National Lottery products are currently available in approximately 6,000 Post Office branches with two thirds of annual sales coming from online games and one third from scratch cards.
- 5.37. The Lottery terminal is used to transact online games and to activate scratch cards before they are sold whereas the paying out of Lottery prizes and the recording of scratch card sales is conducted on Horizon.
- 5.38. At the end of each trading day a daily summary of Lottery transactions for that day is printed from the Lottery terminal by the Subpostmaster and retained in the branch (so that it can, if

necessary, be reconciled later against any Transaction Acknowledgements or discrepancies – see below). Overnight, Camelot will send a data file containing details of all Lottery transactions undertaken by the Lottery terminal to Post Office. This is used as follows:

Sales

- 5.39. The value of all online sales is sent to each branch overnight as a Transaction Acknowledgement. Horizon assumes that all online Lottery sales are conducted for cash (as this is the only method of payment permitted by Post Office for Lottery sales) and the Transaction Acknowledgement therefore increases the amount of cash recorded in the branch accounts on Horizon by the value of the sales conducted the previous day.
- 5.40. If the Lottery terminal is kept on the retail side of the business, and payment for Lottery products is processed through the retail till point, the Subpostmaster must physically transfer a corresponding amount of cash from the retail business to the Post Office branch's cash holdings.
- 5.41. If the Lottery terminal is operated as part of the Post Office counter, then the payments will already have been recorded Horizon.

Scratch card stock

- 5.42. Packs of scratch cards are sent to branches by Camelot. Before selling the scratch cards the branch must record the receipt of the scratch cards so that they can be tracked within the branch's stock holdings. This is done by 'activating' each pack of scratch cards on the Lottery terminal, which allocates a unique identification number to each scratch card and scratch card pack. If a pack is not activated then Camelot may decline to pay out any prize on any winning scratch card within that pack.
- 5.43. The overnight data file contains details of the number of scratch cards activated at each branch. A Transaction Acknowledgment is then sent to each branch, which increases the amount of scratch cards recorded on Horizon as being in the branch's stockholdings.
- 5.44. Before February 2012, this process was manual. The Subpostmaster was required to activate scratch cards on the Lottery terminal and then manually record the new scratch cards on Horizon as an increase in branch stock.

Prizes

- 5.45. Where a customer claims a prize on a winning Lottery product, the ticket or scratch card must be scanned on the Lottery terminal to validate the prize. If the prize is less than £500, the value is paid out in cash by the retail side of the business. If the value is over £500 then the prize must be paid by cheque generated by the Horizon terminal.
- 5.46. Where a Subpostmaster pays out prizes in cash from the retail side of the business, they will be recorded on the daily receipt generated by the Lottery terminal. The Subpostmaster then uses this information to manually enter the prize payouts on Horizon each day. By recording

prize payouts, the cash position on Horizon is reduced and the surplus cash should be physically removed from the Post Office cash holding and transferred to the retail cash holding.

- 5.47. Post Office reconciles the prize payouts recorded on Horizon (both cash and cheque) against the overnight data file from Camelot. Any discrepancies are corrected by way of a Transaction Correction (see below).
- 5.48. Scratch cards can be sold directly through the Horizon terminal or are permitted to be sold from the retail side of the business and later recorded on Horizon. Sales conducted directly through Horizon will automatically make the necessary adjustments to the branch's recorded cash and stock holdings to reflect each sale.
- 5.49. If a Subpostmaster chooses to sell scratch cards from the retail business, a record of scratch card sales has to be maintained so that at the end of each day the volume and value scratch card sales for that day can be manually input into Horizon. Horizon will assume that all the sales have been for cash and hence the Subpostmaster must also physically transfer the corresponding amount of cash from the retail business into the Post Office cash holdings.

6. Horizon Double Entry Accounting

- 6.1. As well as processing transactions, Horizon is also an electronic accounting system which tracks every transaction input to the system in a branch and ensures relevant double entry bookkeeping for it. Those transactions include both those recording sales and services to customers as well as deliveries of cash and stock in and out of the branch. Horizon enables staff in a branch to run reports referred to as "Balance Snapshots" as and when they require and to look up the recorded amount of cash and stock on hand.
- 6.2. The system's core principle is that of double-entry recording (i.e. entries generally have a corresponding and opposite entry so as to "balance" the account). For example, if a product is sold for cash this should in most cases result in a reduction in a branch's stock levels of that particular product line and a corresponding increase in the amount of cash recorded as held at the branch.
- 6.3. A typical example of double entry would be the processing of a "personal banking" cash withdrawal by a customer. Horizon would record a credit (a reduction) in physical cash holdings in the branch due to money being paid to the customer. It should also record a debit in the payments section of the Balance Snapshot to reflect the debt now due to Post Office from the customer's bank.
- 6.4. The effect of this double entry system is that an input in one part of the branch's accounts will cause corresponding changes in other parts of the accounts.

Example:

- 6.5. *The levels of stock (e.g. postage stamps) held in a branch can be manually adjusted. A reduction in stock will automatically increase the amount of cash by the same value, as Horizon will assume that the stock has been sold.*
- 6.6. *So if, for example, the amount of first class stamps recorded on Horizon is manually reduced by £10, the amount of cash recorded on Horizon is automatically increased by £10.*
- 6.7. *If this reduction in stamps was incorrect (say it was done by accident), then when the amount of physical cash actually held in the branch is compared to the amount of cash recorded on Horizon, (assuming that all other transactions are perfectly correct) the branch will be £10 short and will be showing a loss of £10 in cash.*
- 6.8. *In this way, the error in accounting for stamps has migrated across the accounts to manifest itself as a loss of cash.*
- 6.9. *However, the branch should also now be actually holding £10 more in first class stamps than the amount shown on Horizon. This creates a "surplus" of stamps physically in the branch.*
- 6.10. *In this scenario, there is therefore no net overall loss. If identified by the Subpostmaster then the error can be corrected by manually increasing the value of first class stamps recorded on Horizon by £10, which will then automatically decrease the amount of cash recorded on Horizon by £10 (as Horizon will assume that as there are now more stamps in the branch, those extra stamps must not have been sold). This should bring in line (or "balance") the branch's accounts recorded on Horizon with the actual cash and stock holdings in the branch.*

7. Branch Operating Procedures and the Processing of Transactions

7.1. In simple terms, most individual customer transactions are processed as follows:

- *A customer approaches the branch counter and requests certain transactions;*
- *The Subpostmaster selects the appropriate product or service on the Horizon terminal and, if necessary, inputs the value of the transaction (e.g. cash withdrawal from a bank account of £100);*
- *This process is repeated for each individual transaction requested by the customer (e.g. at the same time as the cash withdrawal, the customer purchases £10 of stamps);*
- *Horizon groups the individual transactions together in a "basket" of transactions and displays the net amount to be paid to the customer or which needs to be taken from the customer (e.g. in the above situation, the net cash due to the customer is £90);*
- *If payment is to be taken from the customer, the Subpostmaster selects the payment method (e.g. cash, cheque, debit card, etc.). This is referred to as the Method of Payment ("MOP");*
- *The Subpostmaster takes the payment from the customer or pays out cash to the customer as required. This final payment out or in (whether by cash, cheque or other method) records a final line in the transaction record that offsets the net value of the transactions and brings*

the basket total to zero. (e.g. If a customer buys £10 of stamps for cash the stamps would show as a negative £10 and the cash received would show as a positive £10, thereby bringing the basket total to zero);

- *The Subpostmaster completes the transaction on Horizon which closes that basket and updates the branch's cash and stock records on Horizon (e.g. in the scenario above involving a stamp purchase and cash withdrawal, the branch's cash will have decreased by £90 and stamps by £10).*

- ¹ 2. Whilst it might appear from the above that any errors should be easy to identify, the ²
³ multiplicity of transactions and the lack, in some cases, of a clear and easily available audit trail may mean that the source of errors during a process is not always easy to determine.



- 7.3. For many transactions carried out in a branch, Horizon delivers and records the sale or service to a customer at the point of sale with the customer present. For example, a banking cash withdrawal or a bar-coded utility bill payment transaction can be completed wholly on Horizon, with no related paperwork to process and no use of other terminals that are not connected to Horizon.
- 7.4. Some transactions however require the use of other equipment. Examples include Lottery Game Sales and Scratch card Packs (see above), which must be transacted on the separate Lottery terminal. Horizon is then updated the next day by Transaction Acknowledgement as explained below.
- 7.5. There may also be various other steps that the Subpostmaster needs to take to complete the transaction which are specific to the product in question (e.g. completing and sending various receipts and paperwork).

Stock units

- 7.6. Horizon has the capability to create "stock units". These are in effect separate ring-fenced sets of sub-accounts within the branch's general account on Horizon. Although there are no mandatory business requirements for how many stock units a branch has to have, or how they are physically deployed, the creation of a stock unit by a Subpostmaster will cause Horizon to create a separate sub-set of accounts connected to that stock unit.
- 7.7. If cash and stock are transferred from the main branch stock to a stock unit, this cash and stock is recorded in a separate set of accounts for that stock unit (and correspondingly removed from the general branch accounts).
- 7.8. When a member of staff is serving a customer, they will log onto Horizon with their own user ID and password and link themselves to a specific stock unit.
- 7.9. Any transactions conducted will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.

Page: 19

	Number: 1	Author: ap6	Subject: Highlight	Date: 29/04/2014 13:38:02 +01'00'
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- 7.10. One of the reasons for using multiple stock units is so that the branch can operate "individual" stock units with each member of staff being allocated their own dedicated stock unit. The person allocated a stock unit normally has a separate drawer in which to store cash and stock associated with that stock unit so that it is physically separated from the cash and stock in other stock units or the general branch holdings. When branches have balancing problems, it is normally recommended to adopt this approach so that miss-balances and mistakes can be identified to specific individuals.
- 7.11. Some branches operate "shared" stock units. In effect, this means that all the branch staff serve customers from one pool of cash and stock and transactions are recorded against one set of accounts.
- 7.12. Stock units can or must also be set up for individual product categories (e.g. Lottery, ATMs, etc.). This can help the Subpostmaster record all transactions for a particular product within a separate set of accounts so that any discrepancies can be more easily identified.

Reconciliation with clients

- 7.13. A number of the products and services available at Post Office branches are provided by third parties (see *Annex 2*). These third parties are commonly referred to as "clients".
- 7.14. When a client product is transacted, details of this transaction are communicated from Horizon to the client, sometimes immediately and sometimes at a later stage, by the central Post office finance systems. Post Office is then liable to account to the client for the transaction value (or vice versa). An example of online connectivity from Horizon to a client with respect to a single transaction would be as follows:

Example:

- 7.15. *At Post Office branches, a customer can deposit cash in or withdraw cash from his/her bank account with a number a major banks (e.g. Lloyds, Santander, etc.).*
- 7.16. *If a customer wishes to withdraw £100 of cash from an account, the Horizon system connects to the client's computer banking system to confirm that the cash is available for withdrawal.*
- 7.17. *Once authorised, Horizon will tell the Subpostmaster to proceed with the transaction and to give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts on Horizon would then be automatically reduced by £100 to reflect the withdrawal. In this way, the branch's accounts are kept in balance with the amount of cash actually on hand.*
- 7.18. *Likewise, the customer's account at the client bank should be reduced by £100 to reflect the cash withdrawal from the Post Office branch.*

- 7.19. *Post Office then obtains its money back from the relevant partner bank by way of client settlement activities administered by the Finance Service Centre (FSC).*
- 7.20. *This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position on Horizon at the transacting branch will be increased by £100, the branch holding £100 more cash on hand and Post Office making a later payment to the client bank of £100.*

Remittances

- 7.21. Branches send or receive cash and stock to and from Post Office central processing centres. This movement of cash and stock is called a "Remittance" (and is often referred to as "Remming in" or "Remming out"). Branches may also take cheques as a method of payment from customers.
- 7.22. These are treated as a "stock item" on Horizon and require "Remming out" (i.e. sending) to the cheque processing centre.
- 7.23. Post Office monitors the cash levels of each branch and classifies them as either "cash surplus" or "cash deficit" in terms of cash management.
- 7.24. Those branches that are classed as "cash surplus" normally have more customers who make deposits (e.g. by making cash deposits to bank accounts or by buying products with cash) than customers who require cash withdrawals.
- 7.25. The "cash surplus" branches do not require cash remittances to be sent to the branch from Post Office, as they will have a net inflow of cash from customers. These branches are however required to return surplus cash to their nominated Post Office Cash Depots via a Cash Vehicle in Transit (a secure means of transporting cash) in order to prevent the branch holding too much cash on site. Post Office Cash Depots are placed in geographical locations around the UK and each branch will be "tagged" to a particular depot.
- 7.26. "Cash deficit" branches are those where the money deposited by customers to the branch does not usually cover the amount that the branch has to pay out. These branches rely on Post Office Cash Depots to send cash to the branch in order to ensure that there is sufficient cash in the branch to meet its needs.
- 7.27. Post Office's Retail Cash Management team are responsible for monitoring the cash levels within the branch network to ensure that branches have enough cash to serve customers and to support effective working capital management for the network.
- 7.28. The decision on how much cash a branch needs to "Rem" in or out is determined by Post Office's Flexible Planning System, a software tool used by the Retail Cash Management Team. In essence, it compares the cash declaration figures that are entered into Horizon by Subpostmasters against the sales (receipts and payments) information. It also takes account of the average transactions occurring over the previous six weeks trading history to identify how

much cash the branch should return or send back on their next scheduled cash delivery. This information is communicated to Subpostmasters via Horizon using a Flexible Planning Advice Note. The Subpostmaster has the option to amend the amount of cash that is planned to be returned or sent to the branch by contacting the Retail Cash Management Team.

- 7.29. Where cash is to be “Remmed out” to a Post Office Cash Depot, the branch is responsible for placing the correct amount of cash into a remittance pouch, entering the amount that is being “Remmed out” onto Horizon and then either handing the remittance pouch to the Cash in Transit Driver, or sending it back to Post Office via Royal Mail Special Delivery. Assuming no errors or problems occur then this should decrease the amount of cash recorded in the branch accounts on Horizon.
- 7.30. Where cash is “Remmed in” to a branch, the cash remittance is sent by Post Office to the branch either via a Cash in Transit Driver or via Royal Mail Special Delivery. The branch is responsible for checking that the remittance pouch contains the amount of cash stated on the remittance and then logging the receipt of cash into Horizon. This will increase the amount of cash recorded in the branch accounts on Horizon.
- 7.31. Royal Mail Special Delivery is only used, on a risk-assessed basis, for lower value remittances and, for example, where logistics constraints prohibit the use of the large, heavy armoured cash delivery vans.
- 7.32. Cheques have to be “Remmed out” daily by branches. This is to enable overnight processing and next day “clearing” of the cheque by the relevant bank. The only exception is cheques received on Friday and Saturday, which are sent together on the following Monday, as Saturday is not a “banking day”.
- 7.33. There are dedicated Horizon processes, batch control vouchers and special envelopes which branches should use as part of standard end of day mail collections.
- 7.34. Post Office contracts with a banking industry cheque processing organisation which validates cheques received; highlights any anomalies to the Post Office FSC; submits the paper cheques to the drawee bank if required and provides data to the FSC about cheques both successfully processed and those that “bounce” (unpaid cheques).

Transaction Corrections

- 7.35. The FSC (often referred to as “Chesterfield” by Subpostmasters because of its geographical location) is the Post Office's “behind the scenes” accounts processing centre. It provides daily services to clients, branches, multiple partners and customers.
- 7.36. The FSC is the originator of Transaction Corrections (TCs). These are sent by the FSC to branches when errors are found which have either not been identified by the branch or have not been resolved locally. Even if the branch's accounts are in balance (i.e. there is no discrepancy between cash and stock on hand and the cash and stock levels on Horizon), it may

be that the branch has processed transactions erroneously or in a way that causes a Post Office client to refuse to reconcile the transaction with Post Office, thereby causing a discrepancy.

- 7.37. TCs can be issued for a wide range of issues resulting from matters such as errors or omissions in data entry such as miss-keying or not entering the date.
- 7.38. When a TC is sent to a branch through Horizon, the branch is provided with hardcopy evidence of how the error has occurred or contact details to allow further information to be obtained.
- 7.39. TCs are often followed by enquiries to the branch, particularly if a large number of TCs are being sent to that branch.
- 7.40. Branches are required to accept a TC sent through Horizon before completing their monthly Branch Trading Statement (see below). The branch does not have to accept the TC on receipt (although it may be prudent to do so) and can instead print the transaction correction narrative and if possible take the necessary action within the days remaining until that trading period ends.
- 7.41. In 2012/13, the most common reason for TCs being issued to branches was due to errors in "cash remittances from branch".

Example:

- 7.42. *A branch records remitting out £100 in cash and sends the cash pouch to the cash centre. However, upon opening the cash pouch at the cash centre the pouch contains £110.*
- 7.43. *This creates a discrepancy at the cash centre and (assuming the branch is otherwise balancing) the branch will report a £10 shortfall during the next cash declaration.*
- 7.44. *The FSC will then raise a credit TC to the branch. When the branch formally accepts the TC, it will have the effect of reducing the reported Horizon cash balance by £10 in line with the reality of cash on hand. The double entry to this is to increase the values recorded as "Remmed" out. The branch should then balance in respect of this specific incident.*
- 7.45. The time taken to identify errors and the subsequent generation of a TC due to a discrepancy between Horizon and a client's records can sometimes be outside of Post Office's control due to the need to involve third parties.

Example:

- 7.46. *A customer deposits £100 into his/her bank account but, through a keying error, the branch only records a deposit of £10 on Horizon.*
- 7.47. *In this scenario, the records on Horizon and at the client bank will reconcile as both will show a £10 deposit. The branch will have a £90 cash surplus (as the branch will have taken £100 from*

the customer but only recorded receipt of £10 in Horizon). The customer may raise a complaint with Post Office directly or could raise the complaint with his/her bank who will then contact Post Office.

7.48. Equally should the branch mistakenly record a deposit of £1,000 rather than £100 this would generate a shortfall of £900, which the Subpostmaster would have to pay to Post Office unless the customer detects the error and returns to notify the branch.

7.49. Processing a TC often results in an adjustment to the cash or stock position at the branch within the branch's accounts as TCs can debit or credit the branch's cash figure in Horizon. It is, however, important to note that this often (as the name implies) corrects the recording of a transaction such that the reported balance in Horizon will align with the physical cash handled in the transaction.

Example 1:

7.50. If a branch processes a bill payment of £100 as £10 on Horizon, the branch would see a cash gain of £90. The customer receives a bill reminder that full payment has not been received and contacts Post Office to resolve the issue. The error is identified and a debit TC is issued to the branch in the next trading period, because Post Office will need to pay an additional £90 to the customer's service provider. The branch processes the debit TC which increases the cash position on Horizon, thereby creating a £90 shortfall against the cash on hand. This shortfall however sets off against the corresponding gain that would have been made in the previous trading period.

Example 2:

7.51. A customer presents a Transcash deposit slip to make a bill payment but it is then established that an appropriate method of payment is not possible (e.g. the customer's debit card is declined) so the transaction is not recorded on Horizon and no cash changes hands.

7.52. If the branch incorrectly retains the deposit slip and does not follow the end of day this could cause the Subpostmaster to send the slip to Santander (who administer Transcash bill payments taken through Post Office branches) who would then process the bill payment (i.e. money is paid from Post Office's account to the customer's service provider's account).

7.53. When Post Office later reconciles the bill payment against the Horizon records, there will be no matching payment record in Horizon and a TC will be sent to the branch. If the branch accepts the TC, this will alter the branch's cash position and the relevant cash should be put in the till at that point. If the money is not put in the till, then there will be an equivalent shortage at the end of the trading period.

7.54. TCs can be disputed with the FSC. If the TC dispute is upheld then a compensating TC will be issued to the branch. If it is not upheld a written appeal can be made to the relationship manager in FSC who will review the case and make a final decision. Any payment required from the Subpostmaster as a result of the TC will be suspended until the review is completed.

Transaction Acknowledgements




- 7.55. Some Post Office transactions, for example, Camelot/(Lottery)/PayStation/Post & Go are not transacted through a Horizon terminal but instead via separate equipment (see above).
- 7.56. However, the cash taken for these transactions needs to be accounted for on Horizon as part of the overall branch cash and stock holdings. A Transaction Acknowledgement (TA) is often used to ensure that Horizon can be synchronised with the records on the third party equipment.
- 7.57. Transaction Acknowledgements (TAs) were introduced to automate the process of reconciling the data being sent directly from the separate machines and the amount of cash that should be processed through Horizon.
- 7.58. The transactions for certain Camelot products, PayStation and Post and Go are processed overnight and a report of the volume and number of transactions is sent by the third party equipment to Post Office. Post Office then sends the TA overnight to the branch confirming all transactions that took place on the third party equipment during the previous day. For example, National Lottery tickets (not scratch cards) are sold to customers via the National Lottery terminal.
- 7.59. The data from these sales goes straight to Camelot and the branch takes payment for the ticket and puts the cash into a separate drawer on the National Lottery terminal. The following day, the branch's Horizon terminal will be sent an electronic TA which will appear as a message for the first person who logs onto Horizon asking for confirmation that it is correct. Once accepted the TA will make the required adjustment to the branch's accounts and inform the Subpostmaster how much cash should be transferred from the National Lottery till drawer to the Horizon terminal drawer.
- 7.60. Prior to TAs being launched, the Subpostmaster would have to obtain the relevant print outs from each machine and then input these figures onto Horizon and manually reconcile any cash owed. The launch of TAs removed this manual process and hence also removed a source of error.
- 7.61. Even with the TA process, errors can occur if the cash from the Lottery terminal is not transferred to Post Office, or if the user accidentally pays the cash amount into the wrong stock unit. Alternatively, if the Subpostmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.

8. Branch Reporting and Management

- 8.1. As part of a branch standard operating procedure Subpostmasters are required to run and review a number of in-branch reports to ensure that the branch is functioning effectively and to allow Post Office to monitor cash and stock levels against its records. These include:

Daily Cash Declaration

Page: 25

 Number: 1 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:23:10 +01'00'

This omits to say that the SPMR needs to check and approve the TA - it is not forced on the SPMR by POL.

8.2. Staff at each branch are required to count and declare the cash stored in each stock unit at the end of each day. The actual cash on hand is recorded in Horizon by the Subpostmaster or his/her assistants. Horizon should then show any "discrepancy" between the cash on hand and the amount of cash that should be in the branch in order for the branch to balance.



8.3. There are a number of tools in Horizon that can assist Subpostmasters with tracing or identifying discrepancies. For example, transaction logs can be run which show the transactions that have taken place. These logs can be searched using parameters such as product type, user and time of the transaction. Event logs also provide information about user activity and a "Balance Snapshot" shows what Horizon believes is the state of the branch accounts at that point in time.

[ARE ALL OF THESE TOOLS KNOWN TO AND AVAILABLE TO A SUBPOSTMASTER AND ARE THEY TRAINED IN THEIR USE?]



8.4. Therefore, Subpostmasters can in theory ascertain what transactions have taken place in branch and the amount that has been recorded against each transaction.



8.5. Before Horizon Online was implemented (i.e. pre-2010) Horizon reports were available in branches for 42 days. These reports are now available in branch for 60 days.

Weekly Balance

8.6. Post Office recommends that, every week, a branch undertakes a full cash and stock count. The actual amounts on hand of cash and stock can then be compared to the figures recorded in Horizon. This should help the branch to identify and correct any discrepancies in a timely manner before they become combined with others and hence become more difficult to isolate.




8.7. In the event that a discrepancy is found on a weekly balance, it can be declared and will be transferred into a "suspense account" until it is resolved. Amounts are typically held in suspense for a few days or weeks, but only until the next month end, to allow the Subpostmaster some time to try to resolve the discrepancy.

8.8. The Daily Cash Declaration and the Weekly Balance are tools for the Subpostmaster to use to manage their branch. Declaring a loss or surplus through either of these reports does not trigger any action by Post Office at that stage.

Monthly Trading Period Rollover

8.9. This is similar to the Weekly Balance but is mandatory every month. It requires any discrepancies (including those put into suspense during the month) to be resolved. This process is also called "rolling over" or the "end of trading period" process. At the end of the monthly process, the Subpostmaster is required to print off and sign a "Branch Trading Statement". This statement confirms that the cash and stock shown in the accounts reflect the cash and stock held in the branch (with any discrepancy having been declared – see below).

Page: 26

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-  Number: 1 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:28:59 +01'00'
- Horizon does show the discrepancy. SS uses of the word "should" indicates that there could be an error in Horizon doing this calculation - there is no evidence whatsoever that this error exists
-
-  Number: 2 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:29:30 +01'00'
- POL to answer
-
-  Number: 3 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:30:08 +01'00'
- What does the phrase "in theory" mean?
-

8.10. Subpostmasters are contractually required to complete a monthly balance. If a branch does not roll over into the next trading period when they are scheduled to do so, Post Office will instruct the branch to rectify the situation. Failure to roll over at the end of each trading period constitutes a breach of the Subpostmaster's standard contract.

8.11. In order to address discrepancies or Transaction Corrections, the Subpostmaster should follow the processes set out below. This should allow an issue to be resolved or to be further investigated by contacting Post Office's Finance Service Centre (FSC). In the case of a further investigation, a disputed item remains suspended until the Post Office has investigated the matter.

Cut off routines

8.12. Mandatory daily and weekly "cut off routines" are in place to enable branches to validate transactions, which should ensure that the paper records match Horizon. This also assists in the identification of errors. Examples include, validating against Horizon's records, the physical cheques held in branch to send to clearing or the banking summaries to send to Santander. Validations of physical records against Horizon records can also help detect errors or omissions but only if the nature of the error is understood.

Resolving surpluses or shortfalls of cash or stock

8.13. Branches are required to accurately report the actual cash and stock holdings on hand and Horizon then calculates any loss or gain when compared to the branch's accounts.



8.14. If a loss or gain is shown then a Subpostmaster may take some or all of the following steps to remedy that situation:

- For stock issues, they should process a sale or sales reversal to correct the volume of stock shown on Horizon, to make sure that it balances to the volume of stock actually held in the branch.
- For a surplus of cash (when the cash on hand in branch is more than the amount of cash recorded in Horizon), the Subpostmaster removes sufficient cash to bring the branch back into balance, which he/she is entitled to do under the terms of their contract without reporting the surplus to Post Office.

8.15. It is common practice for Subpostmasters to keep surplus cash in a separate location (such as the retail business safe) until their investigation into the gain is completed and/or a transaction correction is received.

8.16. If following the monthly rollover there is a shortage of cash (when the cash on hand is less than the amount of cash recorded in Horizon), Horizon presents the Subpostmaster with three options to remedy the deficiency:

- **Make good** – the Subpostmaster can elect to put cash or a cheque into the branch from his/her personal funds to make up the shortage.

- **Settle centrally and pay** – the shortage is transferred to the Subpostmaster's personal account with Post Office. The cash figure on Horizon is reduced to bring it in line with the actual cash on hand at the branch. At this point, the Subpostmaster owes the cash loss to Post Office as a debt. This debt can be repaid by either (a) a direct payment from the Subpostmaster to Post Office or (b) by deductions from the Subpostmaster's future remuneration although in this latter option the Subpostmaster may not commit more than 25% of his/her net pay to such a deduction.
- **Settle centrally and dispute the shortage** - if the Subpostmaster believes that the shortage was not his/her fault or could be resolved through other means, then the debt will be suspended to allow time for the shortage to be investigated and remedied. The Subpostmaster can dispute a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the Finance Service Centre at Post Office to have the debt suspended pending an investigation.   would appear that not all Subpostmasters are aware of this third option.



- 8.17. If however an investigation is not fully conclusive then the onus reverts to the Subpostmaster to determine the source of the error and deficiency and to personally settle any amounts due.


9. Branch Error Analysis

- 9.1. This section describes how some errors might occur and what facilities are available to a Subpostmaster to identify or correct those errors.
- 9.2. There are a variety of reasons why a branch may encounter a discrepancy between the amount of cash and stock on hand and the amount of cash and stock recorded on Horizon – this situation is commonly referred to as a "balancing discrepancy".
- 9.3. There are number of situations in which a balancing discrepancy might occur. It should be noted that some of the situations described may cause a gain for a Subpostmaster, or only cause a temporary loss and may cause the real reason for the losses to be hidden:
- If an error causes a surplus of cash in the branch, this may offset a smaller loss caused by another error. In that scenario, the loss or error may not be revealed, as the overall branch accounts will balance or show a surplus; or
 - If a surplus error occurs in one month but is later discovered and corrected via a TC in a subsequent month, then the TC will affect that later month's account and the accounts for the later month may show a loss even though all transactions in that later period have been processed correctly.


Example:

- 9.4. *A branch suffers two errors, one creating a £100 gain and another causing a £100 loss. At the end of the trading period, the branch's accounts will balance as the two errors cancel each other out for balancing purposes.*

Page: 28

 Number: 1 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:36:13 +01'00'
Unsupported opinion

 Number: 2 Author: ap6 Subject: Highlight Date: 29/04/2014 14:36:07 +01'00'

 Number: 3 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:42:35 +01'00'
Not correct eg. if the cause of a lost cheque cannot be determined, POL absorbs this loss.

- 9.5. *If in the next trading period the surplus error (i.e. the gain of £100) is discovered, a Transaction Correction (TC) will be sent to the branch which increases the amount of cash recorded in the branch accounts. If all the remaining transactions throughout the rest of that trading are conducted correctly the branch will still show a loss at the end of the later trading period due to the TC. Therefore, whilst the loss of the branch shows in the current trading period, the error which caused the loss occurred in the previous trading period.*
- 9.6. A number of the errors as described below may only be visible to those working in the branch. When discrepancies occur, Post Office normally seeks to find possible explanations other than those below. If no other source of the discrepancy can be found and system error can be eliminated or discounted then, by a process of elimination, the discrepancy will have most likely occurred through an error in the branch.

Miss-key

- 9.7. A miss-key is the term used when staff enter the wrong value of a transaction into Horizon compared to the actual amount of the transaction.

Example:

- 9.8. *A personal banking customer wishes to deposit £1000 into his/her account and the person serving the customer mistakenly enters £10,000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.*
- 9.9. *In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank who in turn contacts its customer. The customer will be asked to confirm the amount deposited at the branch. However, the only receipt printed from Horizon will have been given to the customer and will show a deposit of £10,000 and, therefore, the rectification process relies largely on the actions of the customer and their bank.*
- 9.10. As a result, an easy to make keying error by branch personnel could result in a customer enjoying a windfall benefit with the Subpostmaster having to suffer the cost of it.

Mixing retail and Post Office business

- 9.11. Generally, a branch will maintain a physical separation between retail and Post Office cash. Mixing these two sets of cash can lead to Post Office cash being lost to the retail business and vice versa as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

Errors in cash handling

- 9.12. At the end of a customer transaction, payment normally needs to be made to or received from the customer. Even if the transaction is correctly recorded on Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to the customer.

Example:

- 9.13. *A business-banking customer may present documentation to deposit £1000 into his/her business banking account.*
- 9.14. *If, at the end of the transaction, £1000 in cash is given to the customer instead of taking £1000 in cash from the customer there will be a shortage to the branch of £2000, made up of the deposit entry of £1000 being correctly input onto Horizon (Horizon then expects to receive £1000) and the settlement out to cash of a further £1000 which will reduce the cash in branch.*
- 9.15. In many cases the honesty of the finder and the ability to identify the money as coming from the branch is required if the money is to be returned to the branch.

Miscounting cash on hand

- 9.16. Cash must be physically counted at the end of each day and when rolling over at the end of a trading period. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether.
- 9.17. If cash is temporarily mislaid one day and found the next, it can lead to related shortages and surpluses on different days or in different trading periods. In the midst of many other activities, branches may not associate the two and may dispute part or all of the outcomes.
- 9.18. Another instance of where this can happen is when a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. A few Post Office products, such as National Lottery scratch cards, are permitted to be sold from the retail business. However, it is the Subpostmaster's responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.
- 9.19. Cash remittance pouches that have been prepared for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure (as it is deemed to have been remitted out of the branch even if the pouch has not yet been physically collected) and, therefore, the branch could be declaring a gain or inadvertently hiding a loss.

Cash remittance errors

- 9.20. If there is mistake made between the amount that is "Remmed" in or out and what is received or sent by or to the Post office Cash Centre, then this will lead to a branch discrepancy. However, cash received into and out of the Cash Centres is recorded and monitored on CCTV. When a pouch is received from a branch, the handling clerk at the Cash Centre opens the seal and empties the contents onto their workstation which is monitored by CCTV. This is the same for pouches that are made up in the Cash Centres and sent to branches.

Example:

- 9.21. *If a branch has bagged up £25,000 to send to the Cash Centre but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000.*
- 9.22. *If the cash has left the branch then the mistake cannot be rectified by the branch. The cash will be counted at the Cash Centre and a Transaction Correction will be sent to the branch to rectify the branch account.*

Stock remittances

- 9.23. Branches receive their stock (postage stamps, MVLs etc) from Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking that the amount of stock received exactly matches the advice note delivered with the order and “remming” the stock onto the correct lines in Horizon.

- 9.24. ¹ The problem with following this procedure is that the delivery may occur during branch opening hours and the only way to carry out this check in an effective manner is to close the branch for a period, which is normally impractical.




Cheque handling

- 9.25. Branches can accept cheques as payment for certain products and services. Customers can also cash personal cheques up to a certain amount. Branches may also accept deposits for certain partner banks.
- 9.26. There are set procedures that must be followed in branch at the end of each day to ensure that the cheques are handled correctly, the customer's bank account is debited accordingly and Post Office can settle the client accounts. Typically there are two scenarios which might cause a loss:
- A cheque has been accepted for a non-cheque acceptable product (e.g. foreign exchange sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. This is because the Subpostmaster may have taken the cheque for payment from the customer, but because the product did not permit cheque payment, Horizon would not present this option on the counter terminal. The Subpostmaster would therefore have to erroneously select another payment option (e.g. cash).
 - The method of payment has not been correctly recorded on Horizon.

Example:

- 9.27. *If a cheque is presented by a customer to pay for a transaction, but the transaction is accidentally settled as a cash transaction, the value of cheques held in the branch recorded by Horizon will not match the value of the actual cheques held in the branch. At the end of each day a cheque listing is printed from Horizon.*
- 9.28. *This printout should be checked against the cheques held in branch and if it does not match, Horizon should be corrected before remitting the cheques to Post Office. After “Remming out”*

Page: 31

	Number: 1	Author: ap6	Subject: Highlight	Date: 29/04/2014 14:40:51 +01'00'
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	Number: 2	Author: ap6	Subject: Sticky Note	Date: 29/04/2014 14:40:46 +01'00'
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Unsupported opinion

the cheques, a further cheque listing should then be printed to confirm that no cheques are held in branch.

- 9.29. *If a branch has not ensured that the cheques in branch match Horizon's record before "Remming out" the cheques, then the cash in the branch will show a shortfall and the amount that is received at the cheque processing centre will not match the amount that has been entered onto Horizon. This is because Horizon calculates how much cash should be in a branch based on the "cash" settlement option that is pressed at the end of each transaction. Therefore, if the "cash" option has been pressed instead of the "cheque" option, Horizon will expect there to be more cash in the branch than is actually held.*
- 9.30. *This may generate a Transaction Correction to correct the account unless the branch reverses the transaction and records it accurately as a cheque transaction.*
- 9.31. Branches should follow a process to ensure that the amount of cheques recorded as held in branch balances to zero. This process is called "cutting off". If the cheques are not "cut off" at the end of the day the cheque listing on the following end of day procedure will not agree with the actual value of cheques held in branch.
- 9.32. This is corrected in the same way by amending the "cheque on hand" figure to show the correct value of the actual cheques held in branch. The value of the cheques in branch is then sent out before a further cheque listing to confirm a zero entry is printed.
- 9.33. It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, Post Office will normally absorb this loss and not pass it on to the Subpostmaster. In the majority of cases, Post Office either mitigates the loss caused by a lost cheque by obtaining a replacement cheque from the customer or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

Accidental loss

- 9.34. Other losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops taken by a customer without branch knowledge.

Transacting from the wrong stock unit

- 9.35. Horizon has the capability to create "stock units", which are, in effect, "virtual tills". A member of staff within a branch, when serving a customer, will log onto Horizon with their own user ID and password and can tag themselves to a stock unit containing cash and stock (either their own individual stock unit or a shared stock unit).
- 9.36. If a user accidentally links or tags to the wrong stock unit and serves a customer or transfers cash or stock, then the accounts will record the transactions against one stock unit but the physical cash or stock will move in or out of a drawer allocated to a different stock unit. Any

transactions carried out will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.

- 9.37. If spotted then this can be corrected by either reversing the transaction and putting it through the correct stock unit, or calculating the cash value of the transactions and transferring the money to the correct stock unit.
- 9.38. In theory, there should be no net overall discrepancy to the branch, as any losses in one stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear as if an error has occurred in one of the stock units and can cause confusion, obscuring other errors.

Outstanding transfers between stock units

- 9.39. Where a branch has more than one stock unit in use (see above) there may be times when cash and/or stock is transferred from one unit to another. For example if stock unit A is running short of cash, stock unit B may transfer money to allow customer service to continue smoothly.
- 9.40. The user in stock unit B should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit A) and transfer the cash out. A receipt is printed which is kept in stock unit B to confirm this.
- 9.41. The user in stock unit A then needs to accept the cash on Horizon and print their own receipt to confirm this. A report called "Transfer Reconciliation" can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals are equal to zero.
- 9.42. Failure to do this can cause cash or stock to be missed from cash and stock counts.

Product specific errors

- 9.43. Failure to follow the correct process for accounting for certain products can also cause errors. A good example is the accounting process for MVL discs (commonly referred to as tax discs).
- 9.44. Branches will receive MVL discs from Post Office, which they have to "Rem" into their stock using Horizon. When the discs have passed the time where they can be put onto a vehicle, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed.
- 9.45. When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it to Post Office, Horizon will still record the disc as being in the branch even though it has been destroyed.
- 9.46. When the branch comes to rollover at the end of the trading period and a full count of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon.

9.47. Whilst this does not create a cash shortage, branches are held liable for "missing" discs at a charge of £41.50 per disc because Post Office is liable to the DVLA for the "lost" discs.

9.48. Failure to follow the correct reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed on Horizon, but if no payment is actually taken, the branch has to reverse the transaction and the disc. If they only reverse the disc out of the system then the stock of discs will balance, but the branch cash will not balance.

Theft

9.49. Theft by branch staff can and has occurred involving staff taking cash or stock directly from safes or drawers or colluding with a customer to generate a gain for the customer and an offsetting loss for the branch (this being ultimately borne by the Subpostmaster).

9.50. These shortages would be identified when a physical cash count and declaration is made, but it is not possible for Post Office to remotely identify when the theft occurred. Unless the person is caught in the act of taking the cash, it is probable that the loss would only be discovered at the end of day cash declaration or at the time of completing the Branch Trading Statement.

9.51. The branch staff may then be unaware of how the loss had occurred. Some thefts may also be accompanied by an effort to disguise the theft e.g. creating false transactions or gains. Whilst it may be possible to identify the user ID that was used to undertake these transactions it is difficult to prove exactly when the actual theft occurred.

Example:

9.52. *Cash or stock may be falsely declared to give the impression that the cash or stock is in the branch when in fact it has been stolen.*

9.53. *"Phantom" cash remittance pouches could be created to mask an amount of cash that is missing but the pouch is reversed before the dispatch. For example, Horizon does not take into account the amount of cash in pouches when it calculates the amount of cash that it is expecting to be declared. So, if cash is missing before the cash declaration is made, the branch could make up a cash remittance pouch to cover the discrepancy, so in effect the branch will not show a discrepancy on Horizon. Once the cash is declared, the branch will reverse the remittance pouch from the system.*

Hardware failure

9.54. In cases of hardware failure requiring the replacement of branch equipment there is a possibility that not all data will have been successfully replicated before the failure of the old hardware with a consequent possible loss of data. There are however checks and procedures available, that if properly followed, should allow such transactions to be identified.



Page: 34

 Number: 1 Author: ap6 Subject: Sticky Note Date: 29/04/2014 14:51:25 +01'00'

For this error to have occurred, there would have to be a complete failure of the core Horizon terminal mid-way through a non-recoverable transaction. Therefore the possibility of this is very very remote.

1 Executive Summary

9.55. We have described a number of the operational functions and facilities used by Subpostmasters. Examples of transactions and their processing have been provided in some cases, but care needs to be taken in drawing firm conclusions from these, as they serve to demonstrate only how a particular process should operate, rather than exactly how an actual transaction or series of transactions has actually been processed. We have also highlighted some areas where potential for confusion and error may occur.



9.56. We also note that the Horizon audit trail facility appears to be limited in function and hard to use. This may explain why many Subpostmasters have been unable to easily resolve issues when they occur.

9.57. Many of these issues and problems are described in more detail in the Thematic Issues Report, which has also been prepared by Second Sight as a result of investigating matters reported by applicants to the Mediation Scheme.

Page: 35

	Number: 1	Author: ap6	Subject: Highlight	Date: 29/04/2014 14:51:55 +01'00'
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	Number: 2	Author: ap6	Subject: Sticky Note	Date: 29/04/2014 14:52:10 +01'00'
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This should go in the thematic report