
From: Charles Colquhoun [GRO]
Sent: Fri 20/06/2014 7:03:50 AM (UTC)
To: Rod Ismay [GRO]
Subject: RE: Fwd: Errors that arise between POL and its clients and others

Thanks Rod, unfortunately I had to go back yesterday and got some helpful comments from your team. See my email below to Chris Aujard:

Chris

It is extremely unusual for us to have an unidentified mis-balance. Where we can identify the client or branch we will resolve the mis-balance. Whilst its being resolved the monies are held on the balance sheet. Where we can't identify the client or branch we hold the monies for 3 years before releasing to the p&l. Typically these amounts are less than £200k pa – a tiny % of our cash throughput.

It is worth repeating the point that as far as I'm aware no client has a lack of confidence in Horizon and as can be seen from the number above the % of successful balanced transactions is very high (>99.9%)

Regards

Charles

Charles Colquhoun | Head of Corporate Finance

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From: Rod Ismay
Sent: 20 June 2014 00:44
To: Charles Colquhoun
Subject: RE: Fwd: Errors that arise between POL and its clients and others

As you say, clients do not appear to have an issue with Horizon. Similarly for your other comment, one could not say that it would never have happened, but we do challenge client data streams if they differ to POL streams and we would not charge branches without a justifiable reason based on our understanding of activities at the counter. As explained below a branch is able to challenge any such matters if they are concerned.

Firstly, the phrase "could Spmr's have been charged by POL" needs dissecting.

- Charges by POL would purely be by Transaction Correction or Transaction Acknowledgement. These have evidence streams as previously explained in various stages of this investigation. For these reasons, this strand should not become part of the kind of event that the question asks about. And if a branch were dis-satisfied with the evidence, they can challenge it. Therefore a branch should not be disadvantaged

- The other scenario would be that the branch has made an error in how the transaction and the method of payment were dealt with in Horizon. If a surplus or deficit arises here then that is due to the branch conformance locally, not to POL making a charge

Centrally, we do have a "miscellaneous client creditor suspense account". This is made up of differences between what we felt we owed a client based on branch transactional data versus what the client said they were owed.

This is driven by the difference between what the branch has recorded and what the client indicates is due. It is not driven by a TC or any form of charge to a branch. It is driven by what the branch recorded themselves.

If the branch had themselves made an error in recording the transaction such that a surplus or deficit had arisen locally then, if they transparently declared that they had an issue, it would go through normal enquiry processes to seek a resolution and a branch would not be disadvantaged. If they do not transparently declare it then POL would not know the branch had a deficit or surplus.

If a branch records the transaction properly but an issue subsequently arises in leading to the client view of it then we or they would have transactional evidence to rebut the client claim.

Rod

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POST
OFFICE

From: Charles Colquhoun
Sent: 19 June 2014 07:32
To: Rod Ismay
Cc: Chris M Day; Sarah Hall
Subject: Fw: Fwd: Errors that arise between POL and its clients and others

Hi Rod see below. This is now urgent. I think the answer is they could but it rarely happens and never material. Is that right if so can we quantify how often and how much? Think this is good time to point out clients don't have a problem with Horizon

From: Chris Aujard
Sent: Wednesday, June 18, 2014 07:15 PM Coordinated Universal Time
To: Belinda Crowe; David Oliver1; Charles Colquhoun
Cc: Chris M Day
Subject: Fwd: Errors that arise between POL and its clients and others

Hi all (and Charles) - see below for the question from Second Sight regarding suspense accounts, taking unreconciled balances to our P&L etc. Is this something that you could take forward (Charles)? Happy to talk through if anyone is interested! Cheers Chris

Sent from my iPhone
Begin forwarded message:

From: Ron Warmington <GRO>
Date: 18 June 2014 02:45:07 pm BST
To: 'Chris Aujard' <GRO>
Cc: <mediation@GRO>
Subject: RE: FW: Errors that arise between POL and its clients and others
Reply-To: <GRO>

Chris:

As promised in Monday's Working Group Meeting, the purpose of this email is to state, hopefully more clearly previously, the question that we are asking in regard to the reconciliation and writing off of differences.

The key question that we are trying to address here is: **Could any Subpostmasters have been charged by POL for amounts that became incorporated in suspense account balances that were subsequently taken into profit by POL or by any of its Counterparty Companies, or that remain as credit balances on the Balance Sheet of POL or of any of its Counterparty Companies?**

First of all, what do we mean by "POL and its Counterparty Companies?". We are referring here to Companies or other Entities which POL deals with in regard to products and services delivered at or through its branches. We have seen POL refer to these Companies as its 'Clients'. These will include, for example:

- ? Royal Mail
- ? Camelot
- ? DVLA
- ? The TV Licensing Body
- ? Banks such as Alliance & Leicester/Santander and others, including the Bank of Ireland
- ? A large number of Utility Companies
- ? Other Government Departments
- ? ... and possibly hundreds of others

How can differences arise?: Taking say the London Electricity Board (LEB) as an example, if a branch has processed in a day £1,000 worth of customers' electricity bills, that branch will have accounted for those payments through Horizon and POL will then owe the LEB £1,000 and

will settle that sum. If one of the bills (let's say one for £90) was paid by cash but the actual bill was not or could not later for some reason be processed (we have several examples of this happening) then the LEB will not record that customer's bill as having been paid even though the branch took the customer's cash. It follows that, at that point, the customer is down by £90 and the branch is up by £90. All other things being equal, the branch would have shown a £90 surplus on the day if the bill payment failed to be processed through Horizon at the counter, or would be in balance if the bill payment failed at a later stage.

In the event that the bill payment process failed at the branch counter, POL will have overpaid LEB by the £90 that its branch will, in effect, have 'overcharged' the customer. The LEB will then (hopefully) tell POL that it has been overpaid by £90 and will credit POL's account in its books with that amount. When that happens then, at that point, POL (Central) and the LEB are all square but the branch still has its £90 surplus and the customer's bill remains unpaid. POL will then try to re-process the customer's bill and, when it succeeds in doing so, will need to charge the branch the £90 cost of doing that... and of course pay the LEB £90 in settlement.

POL will balance its central books by offsetting that £90 that it has paid to the LEB by sending a Transaction Correction ('TC'), in the sum of £90, to the branch. When that TC is accepted by the branch, it will have the effect of increasing, by £90, the amount of cash that the branch is then meant to have in its tills. All four parties (The LEB; POL; the branch; and the branch's customer) are then all square and, in effect, the branch's £90 surplus has been removed.

The opposite effect occurs when a customer's bill does get recorded as paid, but the non-cash payment (e.g. where a credit or debit card, rather than cash, is used as the method of payment) does not hit the customer's bank account. We have seen many examples of this happening, particularly when power or telecommunications interrupts prevent one side of a transaction from going through, but the other side does go through (the two 'sides' being the bill payment and the LiNK payment).

While all this is going on, there will be balances, made up of the amounts that have been over or under paid, shown in the LEB's books as under or over paid by POL. POL clears these by issuing TCs to its branches. In the event that this process breaks down, a mismatch will occur such that the amount that LEB shows as due from POL will be different from the amount that POL shows as due to the LEB. In many companies (clients), this will result in unreconciled balances that are held in suspense accounts and that have, in due course, to be written off to (or written back to) that company's Profit and Loss Account. Those write-offs/write-backs would ordinarily (where there are only TWO parties) occur in one or both companies. In POL's case, there are FOUR parties involved (the Client (in this example the LEB); POL itself; the branch; and the branch's customer). Because POL is acting only as an Agent/Intermediary, those write-offs and write-backs will impact only the three parties other than POL.

In this context, we are aware of a situation where a string of payments were mis-routed to a charity instead of to the intended recipient company. We understand that the cause of this was that part of the POL and client company customer reference fields corrupted the beneficiary sort and account code fields in the outgoing payments.

And what of BoI?: In the case of Bank of Ireland, we know that there have been many instances where the actual amounts loaded into or taken out of ATMs (whether dispensed, removed by theft or lost) is different (sometimes by tens of thousands of pounds) from the figures entered into Horizon by the branch staff. The consequence of these differences is that the BoI's figures (as to how much has been loaded or dispensed) are different from POL's. This gives rise to debit or credit adjusting entries made by BoI in its account with POL. POL deals with those adjustments, in the same way as described above, by sending TCs to those branches that it believes have generated the differences. Again, given the huge volumes and complexity, one would reasonably expect differences and disputes to arise practically every day - and we know they do. One would also expect that, until such time as those disputes are resolved, there will be a mismatch between what POL shows it needs to pay to BoI and what BoI shows POL needs to pay to

it. Where such disputes cannot be resolved, one or both parties (POL and BoI) will need to write the difference off to, or write it back into, its Profit and Loss Account. Until such time as the difference is written to the debit or credit of BoI's P&L account, it will reside on BoI's Balance Sheet as an asset or a liability. Once again, we understand that POL will have no unreconciled balances to be written off or written back because all differences are zeroed out by the issuance of TCs to its branches. The point remains, however, that the only check and balance as to the numbers notified by BoI are those carried out in the branches, rather than by POL. Second Sight regards this as a systemic control weakness.

In our experience, the only time when no differences ever surface in account relationships between entities is when one or both parties are not checking the other party's account entries and simply accepts them as being correct. Furthermore, what we have experienced is that, when such account relationships remain unverified and unchallenged, errors will remain undetected. We have also found that such situations provide a perfect opportunity for fraud since fraudulent entries will routinely (and predictably) remain undetected and consequently always be absorbed by the victim(s). In this case, since POL is not checking BoI's (or its other clients') entries other than by comparing some of them with the figures that the branches have supplied, the checking/verification/investigation processes that would normally be deployed by the second party (in this case POL) devolve to the third party (POL's branches) and to the fourth party (the branches' customers). We know that branches have little or no investigative abilities or resources so the entire process relies on the accuracy - and integrity - of those first and fourth parties. Put bluntly, were erroneous or possibly even fraudulent entries to be passed by any of those first parties (such as Camelot, Royal Mail, BoI, etc.), the impact would pass straight through POL to the victim branch(es). Similarly, we know that, where customers have benefitted from 'one-sided' transactions, not all of them have admitted to their good fortune. Where such customers have benefitted, the SPMR will, under the current process, in many instances finish up suffering the cost.

Chris, you have twice mentioned, in the above context, that Second Sight is challenging Regulated and Audited Entities and that it is unreasonable or unacceptable for us to do that. Our understanding of your reasoning here is that such entities can and should be trusted to produce accurate data. We absolutely reject that notion. History (and our own experience as External and Internal Auditors; as Bank Directors; and as Corporate/Bank Fraud Investigators) has clearly shown us that Regulated and Audited Entities do not suffer materially less error and fraud (including internal/employee fraud) as Unaudited, Unregulated ones. We therefore reject the suggestion that data emanating from such entities can be so heavily relied upon that there is no need to check it.

So... that brings us back to the Question: **Could any Subpostmasters have been charged by POL for amounts that became incorporated in suspense account balances that were subsequently taken into profit by POL or by any of its Counterparty Companies, or that remain as credit balances on the Balance Sheet of POL or of any of its Counterparty Companies?**

Best regards,

Ron Warmington