

## **Initial Complaint Review and Mediation Scheme**

**CONFIDENTIAL**

### **Introduction**

These questions have been prepared following our detail review of the following documents:

- a) 136 CQRs together with associated documents received as at 1 December 2014;
- b) 110 POIRs received as at 1 December 2014; and
- c) Post Office response dated 22 September 2014 to our Briefing Report Part 2.

These questions have been designed to provide us with sufficient information to deal with a number of unresolved issues raised by Applicants and to enable us to issue an updated version of our Briefing Report Part 2 in due course. The questions are supplemented in some instances, by requests for details of procedures and controls as well as, in some cases, requests for underlying source data.

Second Sight Support Services Limited

9 December 2014

## Questions for POL

### 1. Transaction anomalies associated with CASH or STOCK Remittances

1.1. Please provide full details of the following:

- a) all procedures and controls in place to detect and prevent damaged or counterfeit notes being issued to branches as REMs;
- b) all procedures and controls in place to detect damaged or counterfeit notes in outward REMs sent from a branch to a cash centre;
- c) all procedures and controls in place that prevent notes included in an outward REM from a branch being sent to another branch as an inward REM without being counted or checked for damaged or counterfeit notes;
- d) all procedures and controls used to ensure that notes issued as REMS for use in ATMs meet the relevant quality standards;
- e) all procedures and controls used in branch to detect counterfeit notes;
- f) the procedures to be followed in branch when a Subpostmaster detects counterfeit notes; and
- g) who bears the loss associated with accepting counterfeit notes?

### 2. Transaction anomalies associated with Pensions and Allowances

2.1. Please provide full details of the following:

- a) data mining or similar techniques used to identify branches which have processed unusual volumes of P&A vouchers or have processed previously used P&A vouchers i.e. 'Reintroduction' fraud;
- b) all procedures and controls used to detect 'Reintroduction' fraud;
- c) any cases in the last 3 years where outgoing P&A vouchers have been stolen or lost in transit;
- d) who bears the loss associated with lost or stolen P&A vouchers?
- e) any cases in the last 3 years where P&A vouchers have been re-presented at a branch by a person unconnected with that branch;
- f) any cases in the last 3 years where forged P&A vouchers have been presented at a branch;
- g) all procedures and controls used to detect forged P&A vouchers;

- h) who bears the loss associated with accepting forged P&A vouchers?

2.2. Are branches required to ensure that the value of the cheques and vouchers being remitted each week matches the value of benefit pay-outs recorded on Horizon?

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

#### **3.1. Please provide full details of the following:**

- a) any tests carried out that ensure that Horizon's screen-based recovery instructions are visible to the person looking at the branch terminal when a power failure or telecommunications failure (or both at the same time) has occurred or is occurring;
- b) the information that needs to be entered by the user to complete the screen-based recovery process;
- c) any tests carried out that ensure that the backup mobile telecommunications facility works effectively in all locations and in all circumstances including busy, multi-position branches; and
- d) any tests carried out when a branch is upgraded to Horizon Online that confirm that a reliable signal is available for the backup mobile telecommunications facility.

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

4.1. Please provide full details of any instances in the last 3 years where Post Office, Bank of Ireland or Wincor Nixdorf detected an attack against a branch ATM using either malware or hardware devices. Please describe the technical measures in place to prevent or detect this type of attack.

4.2. Given the evidence that the Rejected Notes totals, in several 'Print Totals' output reports by ATMs, have on occasions become corrupted, on what grounds does Post Office assert that the Dispensed Notes totals could not also be corrupted, thereby showing that the ATM had dispensed fewer or more notes than it really had?

4.3. Is it a Post Office requirement that when an ATM is installed that the branch immediately creates a separate stock unit for the ATM? How is this policy monitored and enforced?

4.4. In circumstances where the Bank of Ireland generates incorrect ATM cash dispensed figures for both the branch's ATM and in the figures supplied directly to Post Office, please describe the controls and procedures in place to detect and investigate this type of error.

4.5. Please explain why it is necessary for Sub-postmasters to manually print and enter onto Horizon, the contents of the daily '16:30 - 16:30 ATM Reports' when the same information is sent electronically to the Bank of Ireland and then to Post Office.

4.6. Please provide full details of the following:

- a) any investigation in the last 3 years in which a technical fault was discovered with the ATM which produced a shortage when balancing the ATM or a loss on the Horizon ATM stock unit. How was the associated loss dealt with by Horizon?
- b) any escalated investigation in the last 3 years relating to unresolved cash discrepancies involving a branch ATM;
- c) any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor discovered that any of their authorised engineers or representatives had stolen cash from any branch ATM;
- d) any instance in the last 3 years in which Post Office initially determined that a cash loss was attributed to a Subpostmaster but where it was subsequently found that the Subpostmaster was not responsible for the loss;
- e) the guidance issued to Subpostmasters relating to the '16:30 - 16:30 Print Totals Reports' in circumstances where the rear door of the ATM is located in a retail shop or other non-secure area. Is the Subpostmaster required to close the retail shop when obtaining the '16:30 - 16:30 Print Totals Reports' in these circumstances? How does Post Office monitor and enforce this policy?
- f) any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor became aware of a customer receiving more cash than they were entitled to from an ATM. Please also provide full details of how the resultant cash shortfall was dealt with in the branch's ATM/Horizon balancing process and whether any Subpostmaster was held accountable for losses that were later found to be attributable mechanical problems with an ATM;
- g) how Post Office detects and deals with incorrect items reported in the ATM '16:30 - 16:30 Print Totals Reports' in circumstances when the incorrect figures have also been reported electronically to Bank of Ireland. Please also describe the accounting treatment of any loss that occurs in these circumstances; and
- h) any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor has become aware of any theft relating to an ATM, that was carried out (or suspected of having been carried out) by any person other than a Subpostmaster or a branch employee. Please also describe the accounting treatment of any associated loss.

## 5. Transaction anomalies associated with Lottery Terminal or Scratchcards

5.1. Please provide full details of any instance in the last 3 years in which any Post Office or Camelot employee or representative has been found to have stolen Scratchcards or any other Lottery products/prizes.

- 5.2. Has Post Office ever issued an instruction that unused Scratchcards must not be collected by Camelot representatives? Please provide full details of the circumstances that gave rise to any such instruction being issued.
- 5.3. Is it possible for a Camelot representative to activate a pack of un-activated cards without the knowledge or approval of the Subpostmaster? How would this unauthorised activation be dealt with on Horizon?
- 5.4. Is it true that whenever a claim for a prize is made, in respect of at that point an un-activated Scratchcard; the entire pack from which that card was taken is automatically activated? Please describe the accounting treatment of any Scratchcards that are activated in this manner.
- 5.5. Prior to the changes made to Standard operating Procedures in February 2010, and the subsequent implementation of 'Ping' in February 2012, did Post Office find that many branches were making similar mistakes in regard to processing Scratchcards? Please provide full details of the types of mistakes that were routinely being made. Please also provide a schedule showing for each month, how many TCs were issued and of what aggregate value (separating TC Invoices from TC Credits) during the years 2005 - 2011 in respect of Lottery matters?

## **6. Transaction anomalies associated with Foreign Currency**

- 6.1. Please provide full details of how the Forde Moneychanger ('FM') system operates. Please explain in detail how FX deals were accounted for and the instructions that were provided to Subpostmasters.
- 6.2. Also, how does the FM system, and Horizon, account for the difference between a transaction carried out at a Special FX rate and the expected Normal FX rate? As an example, if a customer was given €150,000 in exchange for £100,000, whereas the Normal FX rate would have only given him €145,000, how did the FM and Horizon systems account for the €5,000 difference? What flexibility was or is available to Subpostmasters when agreeing to non-standard FX rates?
- 6.3. Allegations have been made about unauthorised access to transaction data by staff located at the Fujitsu office in Bracknell. As previously requested and agreed, please provide the email archives in PST or NSF format for Post Office staff working in Bracknell during 2008.

## **7. Transaction anomalies associated with Bank / GIRO / Cheques**

- 7.1. We are aware that every night, a data file is sent to every bank into which its customers' have deposited funds, and from which its customers have withdrawn funds. It is then those banks that bear the responsibility to reconcile Post Office's record of what has taken place with their own records of the entries that have been processed each day into their customers' accounts.
- 7.2. It follows that each of those banks is expected by Post Office to take action where (for example due to telecommunications interrupts between a customer's bank and a branch's Horizon system) a customer's account has not been debited or credited by the bank when Post Office's records show that it should have been, or where a customer's account has been debited or credited by the bank when Post Office's

records show that it should not have been. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank.

- 7.3. Please provide us with a schedule listing all TC's issued to branches in the last 12 months relating to this type of adjustment.
- 7.4. Please provide us with a schedule listing all amounts received back from any bank, in response to that reconciliation process in the last 12 months, clearly describing the accounting treatment of those amounts.
- 7.5. We are aware that in some circumstances a customer may benefit from a duplicated transaction. Please provide full details for any such instances that have been occurred in the last 3 years and state whether any Subpostmaster was held accountable (during any period beyond the end of a Trading Period) and required to make good the resultant shortfall.
- 7.6. We are aware that the November 2008 phasing out of two-part paying-in slips increased the possibility of error or fraud impacting Subpostmasters. Please state what compensating controls were implemented as a result of this process change and describe the consultative process that was used prior to implementation. Please provide details of the anticipated cost savings associated with this process change together with the estimates of increased financial risk i.e. the cost benefit analysis carried out by Post Office.
- 7.7. Please provide us with a schedule showing the monthly volumes (and the aggregate values) of EN/TC Invoices compared to Credits that were issued to branches, in regard to Giro payments and Girobank Deposits and Withdrawals, in the years 1999 – 2013.
- 7.8. We note that cheques not covered by a Cheque Guarantee Card were not an acceptable Method of Payment for certain transactions e.g. the sale of Foreign Currency. Please confirm whether or not Horizon is programmed to reject unacceptable Methods of Payment in these circumstances. Also, if a branch has systematically been accepting cheques in amounts that exceed approved limits, is there a process whereby those repeated errors are detected and corrected?
- 7.9. We are aware that in some circumstances Horizon does not record transactions accurately. Specific examples include:
  - a) where, during Horizon's recovery mode processing, some transactions, that were not processed, or were only partially processed, may not be properly corrected when the system invites the counter clerk to correct the errors or omissions and, if the screen instructions to the counter assistant are interrupted (as would be likely to happen where there are telecommunications or power interrupts) then discrepancies may ensue;
  - b) where misalignment of screen icons results in the inadvertent execution of the wrong type or value of transaction;

- c) where Foreign Currency transactions have been incorrectly accounted for through interaction between the Forde Moneychanger System and Horizon (Note: we regard the FM system as a component part of 'Horizon'); and
- d) where system-to-system interface problems result in incomplete transaction processing e.g. where a PINpad, PayStation or other piece of equipment fails to complete its part of a transaction.

7.10. Please provide full details of the controls and procedures that will detect these types of error and describe the accounting procedures that apply in these circumstances.

7.11. We are aware that if the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, Post Office will absorb this loss and not pass it on to the Subpostmaster. Please provide monthly totals showing the aggregate of all such losses in the years 1999 - 2013, describing how much of that loss was absorbed by Post Office and how much was passed on to Subpostmasters.

7.12. We are aware that some Subpostmasters routinely accept high-value cheques from customers that are in excess of the monetary limits set by Post Office. Please describe the procedures that were followed prior to determining these limits and state the accounting treatment of losses that occur in these circumstances.

7.13. We are aware that processing or technical failures can occasionally give rise to 'one-sided' transactions. We are also aware that Post Office has stated that 'in any event a branch will never be liable for an error caused by a 'one-sided' transaction'.

7.14. Please describe the controls and processes that detect one-sided transactions in circumstances such as when a customer withdraws funds from an account at the branch counter but, although he has received the cash, the account never gets debited.

## **8. Transaction anomalies associated with Stamps, Postage Labels, Phone Cards or Premium Bonds**

8.1. We are aware that occasionally postage labels are purchased by customers, but the printer fails to print correctly. Please describe the procedure whereby the Subpostmaster can recover the cost of the missing label in circumstances where the missing label has not been processed as a 'reject'.

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

9.1. We are aware that occasionally branch Touchscreens get "out of alignment" and that in these circumstances touching one icon generates a system response associated with another icon. Please provide full details of the controls and procedures in place that detect or prevent this type of problem.

## **10. Failure to follow correct procedures or mis-advice by POL's Helpline**

10.1. A number of applicants have reported that Helpline staff have said "don't worry, the problem will sort itself out".

10.2. Please provide full details of the actions taken to investigate these allegations and confirm whether or not Helpline staff have been instructed to never say "don't worry, the problem will sort itself out", or similar words.

10.3. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to those situations where customers leave parcels and come back some days later to settle their accounts.

Specifically, what is Post Office's position in regard to the credit risk that Subpostmasters take, and the potentially 'false accounting' issues that those Subpostmasters risk, when they routinely allow customers (such as eBay Sellers) to drop off large quantities of parcels that are then dispatched by settling the labels to 'Fast Cash' (even though no cash has at that point been received from the customer) and then reversing all those Fast Cash payments to cheque when the customer later pays by cheque?

## **11. Training and Support issues including Helpline and Audit**

11.1. Please provide us with full details as to how the following issues are dealt with during the handover to a new Subpostmaster:

- a) Ensuring that the new Subpostmaster has manager/supervisor-level access rights to the branch's Horizon system;
- b) That every employee has a unique User ID and password;
- c) Ensuring that every till or employee and ATM is associated with a separate stock unit; and
- d) Ensuring that all branch employees are approved by Post Office;

11.2. We are aware that, when attempting to correct errors made at the counter, and to deal with incoming TCs, some Subpostmasters make matters worse by making further mistakes at that point. Please describe the controls and procedures in place to detect and prevent or correct these types of commonly made error.

11.3. Please provide full details of the following:

- a) any surveys or other quality control procedures in order to measure user satisfaction with regard to the NBSC and HSD Helplines;
- b) the extent to which that advice provided by the NBSC and HSD Helplines is monitored and quality checked;
- c) the extent to which the written reports (call logs) of the NBSC and HSD Helplines are routinely compared to the actual calls and quality checked;

- d) any surveys or quality control techniques used to assess the adequacy of training provided to Subpostmasters; and
- e) any surveys or quality control techniques used to assess the adequacy of training provided to branch staff other than Subpostmasters.

**11.4. Process issues at the end of each Trading Period**

11.5. Please provide full details as to how and when Post Office notifies Subpostmasters that they may extend a Trading Period into what should be the next Trading Period.

11.6. Please provide full details as to the options available to any Subpostmaster who, at the end of a Trading Period, discovered a shortfall that was:

- a) larger than they could 'centrally settle'; or
- b) only discovered after the Helpline had closed for the evening.

11.7. Bearing in mind that some TCs would be issued many months after the original shortfall, what options are available to Subpostmasters to 'fund' shortfalls that exceed their 'central settlement' limit?

11.8. Please provide full details as to the consequences of introducing 'Monthly Trading' periods. For example, did Post Office notice an increase in the number of branches suffering discrepancies that led to contract termination?

11.9. We understand that when Post Office moved to Monthly Trading, Branch Suspense Accounts thereafter had to be closed out to zero at the end of each Trading Period. Please provide full details of options available to a Subpostmaster dealing with the investigation of a loss just before the end of a Trading Period.

**12. The contract between the Post Office and Subpostmasters**

12.1. Please provide full details of the following:

- a) any insurance coverage Post Office has ever offered to arrange for its Subpostmasters;
- b) the measures Post Office takes in order to reduce the risk that incoming Subpostmasters, who take over an existing branch and its staff, may be inheriting employees who have been found to be, or are suspected of having been, incompetent or dishonest. In this context, was there, or is there now, any competency and integrity verification, performance appraisal, or formal disciplinary/warning process whereby outgoing Subpostmasters and Post Office's own Line Managers could warn incoming Subpostmasters where questions had been raised?
- c) the measures Post Office takes in order to satisfy itself that potential Subpostmasters have the necessary skills to meet the challenging requirement of being a Subpostmaster? and

d) how Post Office ensures that Subpostmasters have a copy of the Contract no later than the day that they commence their position.

12.2. We understand that many Subpostmasters have only signed the one-page 'Acknowledgement of Appointment' Letter and not necessarily been provided with a copy of the Contract. Please describe the basis upon which Post Office considers the Contract enforceable in these circumstances?

12.3. We understand that Post Office considers the terms of the Contract to be broadly similar to those used in franchising arrangements across the UK. Please provide full details evidencing this proposition?

12.4. We understand that Post Office does not recommend that its would-be Subpostmasters take legal advice (in regard to the Standard Contract) prior to entering into that contract. This appears to be contrary to best practice procedures. For example, the British Franchise Association recommends that independent legal advice should always be taken prior to signing a franchise agreement. Please provide full details as to why Post Office does not comply with this best practice recommendation?

12.5. Several Applicants have reported their concerns that Post Office employees acted inappropriately in connection with the closure or transfer of their branches. The inference of the majority of the remarks made is that certain Post Office employees acted unprofessionally, either by leaking confidential information (that was damaging to the Applicants) to potential buyers and/or by thwarting their efforts to sell a viable branch until it was no longer viable (and consequently of lower value).

12.6. The further inference is that certain Post Office employees seemed to be in some way motivated or incentivised to find reasons to close branches, that were already destined to close under the various closure and re-invention programmes, without cost to Post Office.

12.7. Please provide full details of the work performed to refute these 'bad faith' allegations.

12.8. Please provide full details of Post Office's policy and procedures in respect of writing off amounts due from Subpostmasters. Please also provide similar information relating to Crown Offices. Please also describe the write off authorisation limits applicable to different grades of staff.

12.9. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to helping Subpostmasters recover shortfalls that they have made good as a result of proven theft by branch employees.

### **13. Post Office Investigations Function**

13.1. Please provide full details of any criticism of Post Office's (or Royal Mail's) investigative actions or of its employees in any Court judgement or ruling.

13.2. Please provide a schedule showing the number of requests from Subpostmasters for assistance in investigating discrepancies their branch's accounts for each of the years 1999 – 2013. Please also show for each year the number of requests when assistance was provided.

13.3. Please provide a schedule showing the number of investigations into branch surpluses or shortfalls for each of the years 1999 – 2013 clearly setting out the number of investigations in each category.

13.4. In relation to requests for assistance, we understand that, where several instances of the same problem occurs, a 'problem record' is created and the root cause of the issue is identified and fixed (i.e. to avoid further instances). Please provide a schedule of all significant 'problem records' and all process and software modifications (excluding "minor amendments to processes") that have been implemented, in the years 1999 - 2013, that were designed to reduce the frequency and impact of "errors made at the counter".

13.5. Please provide full details and results of any user satisfaction surveys Post Office has conducted into the Horizon system.

13.6. We understand that many of the unexplained branch losses are attributed to "errors made at the counter". Please provide a schedule showing the number and value of unexplained branch losses or "errors made at the counter" for each month for the period 2008 to 2013. Please also provide similar information relating to Crown Branches including the amounts written off each month.

13.7. Please provide a schedule showing the number and value of ENs and TCs issued to branches for each of the years 1999 to 2013 (we need to see separate volumes and values for Credits and Invoices).

13.8. Please provide full details of changes to the Horizon system and/or to its Standard Operating Procedures that were designed to reduce the risk, incidence and severity of errors and fraud, as a direct result of investigations carried out into unexplained branch shortfalls, or in response to problems, vulnerabilities and susceptibility to errors or fraud, for the years 1999 – 2013.

#### **14. Surpluses**

14.1. Please provide full details as to how Post Office tracks Surpluses and Shortfalls at the end of Trading Periods at both branch level and in aggregate.

14.2. Is it possible that an error which has generated a surplus in one branch can result in a shortfall in another branch? Please provide full details as to how this may occur.

#### **15. Suspense Accounts**

15.1. Please provide full details of all Suspense Accounts held by Post Office. Please also provide a schedule, for each year end between 2008 and 2013, showing the amounts transferred to Post Office's Profit and Loss Account (both debits and credits) for each Suspense Account held.

15.2. Please also provide a schedule, for each year end between 2008 and 2013, showing the balance held on each Suspense Account (both credits and debits).

15.3. Please provide an electronic report in CSV format or similar showing for the last 3 years the following information for every item posted to any Suspense Account:

- a) Full transaction details;
- b) Originator's reference;
- c) Any comments or notes associated with the transaction; and
- d) Full account details of the account the transaction relates to or is being transferred to.

15.4. Please describe the controls used to detect errors in Post Office client reports that if not corrected could give rise to an incorrect TA or TC being issued.

Second Sight Support Services Limited

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