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From: Mark Underwood GRO
Sent: Fri 03/06/2016 1:29:02 PM (UTC)
To: Westbrook, Mark (UK - Manchester) GRO
Cc: Patrick Bourke GRO
Subject: Private & Confidential: Subject to Legal Privilege
Attachment: 160520 Private Confidential - Subject to Legal Privilege - Testing Draft - Rec 8.docx

Mark,

In contemplation of litigation, I wonder whether you are available at all today for Patrick, you and I to briefly speak in respect of Suspense Accounts.

As context and a means for ensuring the suspense accounts you have proposed to look at marry up with latest understanding - I have included below the note Al sent following our Telephone conversation earlier this week.

We are now in a position to be able to commission the work in respect of Suspense accounts but would like to first, definitively, understand which of the attached procedures will be undertaken and whether it needs to be tweaked at all, given the below.

Mark

-----Original Message-----
From: Alisdair Cameron
Sent: Wednesday, June 1, 2016 2:12 PM
To: Patrick Bourke
Cc: Jane MacLeod; Phil Birds; Lorraine Garvey; Paula Vennells
Subject: Legally privileged and confidential - suspense

Patrick,

Thanks for the meeting yesterday. We agreed that as per our absolute custom and practice throughout this process, if we had concerns we must investigate them and rectify any issues that are identified.

I had the call with Chesterfield today, engaging both the Finance and Support Services teams.

My understanding is set out below but this has not been verified, and may therefore be incomplete or inaccurate.

There are 8 accounts worth noting. However, not all appear relevant to the exam question which was "where there are differences between POL and its clients which result in a credit which is late released back to POL, how do we know that the credit shouldn't have been for the benefit of a branch."

There is one important caveat here and one point to note. The caveat is that we are largely describing what happens today and not what was happening in 2005 etc when the issues on which we are being challenged are alleged to have taken place. So the most any piece of work could determine is that there is no reason to think we are taking credits from agents today, which cannot be the same as proving that we never did. This was also true, very overtly, of the conversations and exchanges with SS last year, who accepted that trying to prove that fact at many years distance was going to be practically impossible. I assume that you share that view?

The point to note is that there is a transaction correction process for differences with agents, that is transparent to agents. Anything that falls into that I have considered separate from this question, which is about credits that are effectively invisible to agents as they are between client and POL.

Of the 8 accounts being discussed, two are believed to have no impact on branches
- the Stock Adjustment Suspense is for cash differences within the SC operation and has no impact on branches
- the Paystation account picks up e-top ups where the customer implements a transaction on a Paystation which then fails to poll. Ingenico lists these out and they are cleared. This is believed not to affect the branch.

Three accounts are completely transparent to agents and part of a process they would see and recognise:
- shortages in REM suspense collects differences between cash sent back by branches and the amounts counted in SC cash depots on camera. This is a transparent process to the agents and usually resolved quickly and openly.
- robbery and burglary suspense. Losses claimed from robberies etc are held here pending security investigations. The balance is cleared when Security decide who was accountable ie was it a genuine robbery or the branch. Again this is transparent to the

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branches affected.
- local suspense. Branches post items to this account to recognise differences on their weekly balancing. They are investigated and resolved and this is transparent to the branches affected.

One account, the Current Agent Customer Creditor has been dormant since 2012 and has a balance of £46k. In looking at what we do today, it is irrelevant.

That leaves two core accounts
- the Client Creditor account which is the account discussed with SS last year that picks up differences between Horizon and clients. I understand this is where you queried the. £4K of old Green Giro balances and whether they could be associated with branches. That does not, of course, necessarily mean that the money is due to the branch.
- the Customer Creditor account, which is where differences are picked up between Horizon and the manual documents received by banking partners. The belief in the team is that any differences that affect branches would be picked up by the branch and investigated as potential TC and therefore these residual amounts represent issues between the banks and their customers.

Two other points to note
- for small differences with clients, typically less than £20, we do not investigate but simply accept the client's position and write the debits and credits off immediately. If a TC process highlighted that one of these was in error it could be reversed. Otherwise, we take the credits on the assumption that the branch hasn't signalled an issue.
- if a branch reports a credit on an ATM count of less than £10 the bank simply makes it good to their customer and doesn't ask us for it, so we keep it. It doesn't belong to the branch who would have already reported it as an error and not theirs.

On this basis, the contention that credits are fundamentally collected in and written back from the client creditor account seems right if simplistic.

The questions I think it leaves are:
1) is this wholly and completely accurate or is there another layer of complexity and nuance
2) is there anything in here to give cause for concern.

I have suggested that the team formally document this in detail account by account with details of the account balances at year end 2915 and 2016 and the amounts posted in between, with clear amounts visible and explanations for any material credits released to the p/l. We will discuss it and then share it with you.

It may be appropriate to validate that by reviewing every client account to (a) demonstrate that there are no material balances of unmatched items more than six months old and (b) that unmatched credits cleared from the client account over this period went to one of the identified accounts above.

It may also be useful to confirm through transaction analysis the contention for many of the accounts that there can be no branch impact and to confirm that the accounts do operate as stated.

Depending on what we find, of course, this would demonstrate that (a) we have a complete list of suspense accounts (b) credits released should not materially have benefited branches.

This would enable us, I think, to demonstrate that there is no reason to think we have an issue here or a need for further work? However, as I haven't seen the QC questions, that may be debatable.

It may be helpful in terms of speed and optics for Deloittes to do the work with the help of the teams. In this I would stress the importance of materiality. I don't think we have ever sought to state that it is impossible for a branch ever to be out of pocket for anything, simply that we have no reason to believe they can be systematically, unknowingly out of pocket.

Happy to discuss. Thanks Al

Sent from my iPad