

## Second Sight Horizon Investigation

### Discussion Paper

April 2013

#### **1. Purpose**

- 1.1. In order to provide Second Sight investigative independence, Post Office is not in direct control of the content, time scales or cost of the inquiry. As a result the investigation is at risk of continued delays, cost overruns, and deviating from its original purpose. Unless contained the investigation cost is likely to run to between £500k and £700k and provide no definitive outcome.
- 1.2. This report provides a recommended approach tighten control of the investigation and contain scope.

#### **2. Background**

- 2.1. When Post Office commissioned Second Sight the expectation was that the investigation would cover a small number of MPs cases (6 to 12 cases).
- 2.2. MPs have now submitted 29 cases
- 2.3. Second Sight and JFSA are asserting that the investigation should follow a different methodology, rather than reviewing MPs cases, they believe the investigation should adopt a thematic approach using spot reviews to examine potential failures.
- 2.4. Second Sight are now following a thematic approach (through spot reviews), whilst, in parallel, continuing to investigate MPs cases. To date, Post Office has received four spot reviews.
- 2.5. It is unlikely that the investigation, no matter how long it runs, will conclude anything definitive, as the remit has become blurred, and the evidence is open to interpretation.
- 2.6. There is currently no defined point at which the investigative process will end.
- 2.7. To date the investigation has cost £180k. At the current rate of spend, by December 2013 the cost will be £500k, by next July the cost will be £750K .
- 2.8. The meeting with MPs on 25<sup>th</sup> March and subsequent correspondence gives Post Office an opportunity to contain the scope.

#### **3. Proposal**

- 3.1. We use James Arbuthnot's letter to Alan Bates dated 16th April, as a means to contain the scope and timescales. This letter makes the following points:
  - 3.1.1. Second Sight focuses their efforts on the two best MP cases.
  - 3.1.2. A "result" – even if preliminary, by the summer.
  - 3.1.3. He doesn't respond to Alan Bates request to change the methodology to use a thematic approach focusing on "systemic failures"

- 3.2. Paula or Alice set-up a meeting with James Arbuthnot to discuss and agree the following:
- 3.1.1. Share our concern about the overrunning cost and time of the investigation, noting it has been running for a year and to date no evidence of systemic failures have been found.
  - 3.1.2. To move forward with the suggestion in James Arbuthnot’s letter and ask James Arbuthnot to direct Second Sight complete two in-depth MP cases – selecting the ones that they feel indicate systemic problems.
  - 3.1.3. Ask James Arbuthnot to hold a meeting in June or early July for Second Sight to report back.
  - 3.1.4. Ask James Arbuthnot to refine the remit to Second Sight to: **determine if sub postmasters have been wrongly convicted due to defects in the Horizon system.**
  - 3.1.5. James Arbuthnot makes it clear to Second Sight and MPs that when the evidence is reviewed in June/July, if there is no strong evidence that there was a miscarriage of justice the investigation will be closed.
  - 3.1.6. We should consider providing James Arbuthnot a copy of the four spot reviews and our responses, to give him a feel for the poor quality of the evidence that is being levelled against Horizon after 12 months of investigation. (See appendix)

**4. Stakeholder response**

Stakeholder	Response	Recommended Approach
James Arbuthnot	If James Arbuthnot is concerned about the growing cost and scope of this investigation, this gives him a good opportunity to reign it in.	Build on common concerns. Make sure he understands: <ol style="list-style-type: none"> <li>1. The implications of no intervention (cost/time).</li> <li>2. Quality of the evidence gathered so far in the investigation</li> <li>3. Remit of the investigation may now not be answering the questions he thinks it is.</li> <li>4. Only he can reshape the direction of the investigation as we can’ be seen to be controlling it.</li> </ol>
JFSA	JFSA will respond negatively and will probably redraw support from the investigation. They will probably take their views to the media.  It was always likely that JFSA would take this course of action at some point in the investigation. (unless Second Sight find a	We need to make it clear to James Arbuthnot that JFSA will respond negatively to the recommended course of action to ensure that he is prepared for their response.

	major problem)	
Second Sight	Second Sight would like to take a thematic approach as that produces the most thorough outcome. They will see this as an unwelcome restraint on their desired investigative process.	If the direction comes from James Arbuthnot, Second Sight are likely to accept this change of direction as they perceive him as the ultimate sponsor. They will not accept this direction if it comes from Post Office.

## Appendix

We have received four spot reviews from second sight:

1. SR001 – Communication line failure - raised by John Armstrong the SPMR in Lepton Branch
2. SR011 - GIRO Payments and the apparent Loss of Audit Trail – raised by Tracy Ann Merritt in Yetminster Branch
3. SR012 - Missing Cheques – raised by Jo Hamilton in South Wanborough
4. SR013 - Missing Cheque for a TV licence – raised by Jo Hamilton in South Wanborough

Below are the spot reviews, followed by the Post Office draft response

## HORIZON – SPOT REVIEW 1

Reference Number:	SR001	Issue Type:	Debit Cards – Cash Withdrawals and GIRO payments	Date:	04/10/2012 at 10:32 hrs
SPMR Name:	John ARMSTRONG	PO Branch:	Lepton	FAD:	1913204
Loss to SPMR?	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	Current Status:	Awaiting response from POL	Category:	1 <input type="checkbox"/> 2 <input type="checkbox"/>  3 <input type="checkbox"/> 4 <input checked="" type="checkbox"/>
<b>What the SPMR says happened</b>					
<p>The SPMR reports that there were intermittent internet connectivity problems (also reported to Chesterfield) on 4 October 2012. Online payments and withdrawal transactions were sometimes successful but also failed on occasions. It is possible that Horizon was partially operating through its back-up (mobile phone) connection. Some card payments had to be attempted two or three times before being accepted. At approximately 10:32 a customer tried to pay his £76.09 BT phone bill with his LTSB card but was not successful. The customer then withdrew £80.00 cash and used this to pay the phone bill. The SPMR stamped the customer's phone bill to evidence receipt of the cash, returning change of £3.91. Several weeks later, the customer returned from holiday to find his phone had been cut off due to non-payment. The SPMR's examination of the Transaction Log showed that all components of the transaction had been reversed. The SPMR did not initiate those reversals nor did he receive any reversal notifications. The SPMR raised this as an issue with Chesterfield but was told that due to cost issues Horizon transaction data could not be requested. It was implied that the SPMR had stolen the money and he was told to make good the shortage. This meant that 2 people had paid the phone bill (the customer, who handed cash to the SPMR and the SPMR on instructions from Chesterfield). The SPMR was informed that he should have a surplus of £76.09 due to the reversal of the transactions. The SPMR disputes this conclusion, but the more important issue here is the automated, unreported, reversal of the transactions.</p>					
<b>Investigative work done</b>					
<ul style="list-style-type: none"> <li>• Dialogue with the SPMR and with POL seniors in order to clarify the facts</li> <li>• Review of letter from P&amp;BA dated 14 December 2012</li> <li>• Review of Fujitsu XML-level data for October 4<sup>th</sup> 2012</li> </ul>					
<b>POL Response</b>					
<b>PRELIMINARY CONCLUSIONS</b>					
<ul style="list-style-type: none"> <li>• The Horizon automated recovery process designed to deal with power and internet failures reversed a series of transactions without notifying the SPMR or reporting the actions performed on screen or elsewhere. The system also failed to notify the SPMR of the appropriate corrective actions.</li> <li>• The decision by P&amp;BA not to examine the Horizon detailed transaction data on cost grounds delayed or denied the SPMR the opportunity to process the transactions correctly or understand what happened.</li> </ul>					

## Horizon Spot Review - Response

### SR01: Debit Cards – Cash Withdrawals and GIRO Payments

#### 1. Executive Summary

This Spot Review does not demonstrate any failing in Horizon.

This Spot Review principally asks whether a SPMR will be properly notified about automatic reversals of transactions when Horizon is unable to connect to the Data Centre. The analysis below shows that Horizon does provide adequate notification.

Further, in the particular case raised in the Spot Review, the root cause of the difficulties suffered by the SPMR was his failure to follow the on-screen and printed instructions given by Horizon. Post Office Limited is confident that the SPMR knew that some transactions had been automatically reversed because:

- The branch had been suffering connectivity issues in the run up to the incident in question.
- When the transactions in question first failed to be processed (because Horizon could not get a response from the Data Centre), Horizon asked the SPMR whether he wished to cancel or retry the transactions. The SPMR opted to retry the transactions.
- When the transactions failed again, the SPMR opted to cancel the transactions.
- Horizon then automatically disconnected and printed a "disconnect" receipt that showed the transactions that had been automatically reversed. A sample "disconnect" receipt is included in the appendix to this response.
- A standard customer receipt was not produced – this would tell the SPMR that the full transaction had not proceeded.
- Following the disconnect, the SPMR was required to log back on to Horizon and duly did so.
- Following the log on, and as part of the standard recovery process, Horizon printed a "recovery" receipt which again showed the transactions that had been reversed and those that had been recovered. A sample "recovery" receipt is included in the appendix to this response.

#### 2. Introduction

This spot review relates to an issue raised by John Armstrong the SPMR in Lepton Branch (FAD Code 1913204) relating specifically to transactions carried out on Horizon Online on 4<sup>th</sup> October 2012. The issue is headed "Debit Cards – Cash Withdrawals and GIRO payments".

This report provides information as to what was alleged by the SPMR (see section 3) and a detailed analysis of what actually occurred as shown in the system logs (section 4). Section 5 then describes how recovery operates on Horizon and Section 6 identifies those points in the report which are not supported by the Logs. Finally section 7 addresses the question of access to raw transaction data.

#### 3. The SPMR's view of what happened

The following is an extract from the Spot Report saying what the SPMR says happened:

The SPMR reports that there were intermittent internet connectivity problems (also reported to Chesterfield) on 4 October 2012. Online payments and withdrawal transactions were sometimes successful but also failed on occasions. It is possible that Horizon was partially operating through its back-up (mobile phone) connection. Some card payments had to be

attempted two or three times before being accepted. At approximately 10:32 a customer tried to pay his £76.09 BT phone bill with his LTSB card but was not successful. The customer then withdrew £80.00 cash and used this to pay the phone bill. The SPMR stamped the customer's phone bill to evidence receipt of the cash, returning change of £3.91. Several weeks later, the customer returned from holiday to find his phone had been cut off due to non-payment. The SPMR's examination of the Transaction Log showed that all components of the transaction had been reversed. The SPMR did not initiate those reversals nor did he receive any reversal notifications. The SPMR raised this as an issue with Chesterfield but was told that due to cost issues Horizon transaction data could not be requested. It was implied that the SPMR had stolen the money and he was told to make good the shortage. This meant that 2 people had paid the phone bill (the customer, who handed cash to the SPMR and the SPMR on instructions from Chesterfield). The SPMR was informed that he should have a surplus of £76.09 due to the reversal of the transactions. The SPMR disputes this conclusion, but the more important issue here is the automated, unreported, reversal of the transactions.

From this information, the following key issues have been identified:

- When Horizon cannot get a response from the Data Centre, are automatic transaction reversals notified to SPMRs?
- Why is raw transaction data not provided to SPMRs? It is noted that this second issue does not raise a question about an error in Horizon. Rather, it is focussed on Post Office's procedures and processes.

#### 4. What the System Logs show

Note that the system logs show all times in GMT rather than local time. On 4<sup>th</sup> October 2012, GMT was 1 hour behind Local Time (ie BST). The times quoted in this review relate to the system logs. Therefore the mention of 10:32 by the SPMR above relates to 09:32 in the logs.

There do appear to be 2 cases on 4<sup>th</sup> October where the system had a forced Log Out that resulted in a recovery Log On being required. This supports the statement above: "The SPMR reports that there were intermittent internet connectivity problems (also reported to Chesterfield) on 4 October 2012". The two "Recovery Log Ons" occurred at 08:51:40 (when no recovery was required) and at 09:37:20 when recovery was required as will be described later in this report.

The following table looks at the number of online requests for either Banking or Credit / Debit Card Payments that appear to have timed out:

Date	Total
04/10/2012	13
05/10/2012	4
08/10/2012	11
10/10/2012	2
11/10/2012	2
16/10/2012	1
17/10/2012	2
18/10/2012	2
19/10/2012	3
22/10/2012	1
23/10/2012	1
25/10/2012	2
<b>Grand Total</b>	<b>44</b>

This supports the comment regarding intermittent connectivity problems on 4<sup>th</sup> October. I note that there were similar problems on 8<sup>th</sup> October.

There are 4 examples prior to 09:30 where either a Banking withdrawal or a Credit / Debit card payment initially failed and was successful on the second attempt. There was also one example where there were two failures for a card and presumably the customer or the SMPR gave up. This supports the statements that "Online payments and withdrawal transactions were sometimes successful but also failed on occasions" and that "Some card payments had to be attempted two or three times before being accepted".

The raw logs do have statistics regarding times taken to connect to the Data Centre and also an indication of the type of Comms currently in use. From these it can be seen that the Branch normally operates using ADSL, but at the time of the failure that is being examined it appears to be using a mixture of O2G and O3G (ie mobile networks) presumably due to a failure of the main ADSL connection. This supports the statement that "It is possible that Horizon was partially operating through its back-up (mobile phone) connection". This may have been visible to the user as a slower than normal response time.

The key transactions are those described as occurring at 10:32 (ie 09:32 GMT).

This analysis starts at 09:26 and shows the sequence of baskets processed between that time and 09:40.

1. 09:26:30: Session 537799 contained two transactions: A Card Account Withdrawal (Withdraw Limit) for £271.54 and a corresponding Cash Settlement.
2. 09:27:34: Session 537800 contained three transactions: A failed Card Account Withdrawal (Withdraw Limit) immediately (09:28:13) followed by a successful Card Account Withdrawal for £141.80 using the same card and a corresponding Cash settlement.
3. 09:29:27: Session 537801 contained a single transaction: A failed Visa Debit card payment. This payment had been requested for £141 and had failed due to no response having been received by the counter within the timeout period (33 seconds). Clearly an attempt had been made to purchase something or pay for a service for £141, but when the Debit card payment failed, the original transaction was voided and the basket completed.
4. 09:31:56: Session 537802 contained 2 transactions. A Halifax Current Account Withdrawal for £200 followed by the corresponding cash settlement. It would appear that the card used here was the same as the one used in the previous session when the Debit Card payment failed.
5. 09:32:52: Session 537803 contained 3 transactions. A bill payment to BT for £76.09 followed by a Cash Withdrawal for £80 using a Lloyds TSB card and £3.91 cash for the difference.
6. 09:37:19: User JAR001 Logged On again
7. 09:37:44: Session 537805 generated by the system as part of the Recovery that takes place during Log On and contains 3 transactions. The first 2 are the Reversals for the BT Bill Payment and Cash transactions in session 537803, and the 3<sup>rd</sup> is a Cash balancing transaction for £80 to correspond to the £80 cash withdrawal which should have been treated as successful at the time of failure. This is why "The SMPR's examination of the Transaction Log showed that all components of the transaction had been reversed."

It should be noted that the statement is not quite correct. The Banking Withdrawal for £80 has **not** been reversed.

8. 09:40:19: Session 537806 contained 2 transactions. A Card Account Withdrawal (Withdraw Limit) for £229.72 and a corresponding Cash Settlement.

It should be noted that there was no Session 537804. There are a number of circumstances under which there are gaps in Session Sequence Numbers and in general they are not expected to be contiguous. In fact they are based on an underlying Journal Sequence Number which are contiguous and relate to any record that has been audited.

In this case the "missing" number relates to the Journal Sequence Number used in the Log On Request, but there are a number of other circumstances that can result in a Journal Sequence Number being used where there is no corresponding Basket.

Looking at the statistics recorded with the Recovery basket at Point 7 above, it can be seen that there were a number of issues during session 537803:

- a. The Authorisation for the Cash Withdrawal was successful and was done on a 3G comms Connection.
- b. The subsequent attempt to update the Recovery information in the basket after completing the Banking Transaction failed due to a timeout on a 2G comms connection
- c. There are then 4 attempts (at roughly 45 second intervals) to store the completed basket to the Data Centre. The first 2 use a connection type of 2G and the other 2 use a 3G comms connection. From the branches records, they are all marked as having failed.
- d. From the Data Centre's perspective, one of the attempts did result in data being successfully saved in the Data Centre but, due to the connectivity issues, the branch did not receive a confirmation from the Data Centre. The branch will therefore record this as a failure.

Moving on to the end of the day the following Cash Declarations were made:

- A. At 16:31:27 a Declaration was made for £22,160.54 followed by a variance check which indicated a discrepancy (loss) of £1,237.16.
- B. At 16:32:46 a second cash Declaration was made for £23,460.54 followed by a variance check which indicated a discrepancy (gain) of £64.84.

Looking forwards, the following variance check discrepancies were recorded:

Date	Variance Check Discrepancy	Loss or Gain
04/10/2012	£62.84	Gain
05/10/2012	£66.15	Gain
06/10/2012	£76.98	Gain
08/10/2012	£71.91	Gain
09/10/2012	£69.05	Gain
10/10/2012	£63.99	Loss

The Stock Unit was Balanced and rolled over from Balance Period 3 into Balance period 4 on 10<sup>th</sup> October and the Discrepancy committed to the accounts. (There was also a £37.75 discrepancy Gain on stamps at the same time.)

## 5. Explanation of Recovery

The fact that a Log On (and Recovery) occurred at point 6 above indicates that there must have been a failure just before that point and the User would have been informed of a Forced Log Off. The fact that Recovery reversed most of the last Session recorded prior to the recovery indicates that the following sequence of events occurred. This is confirmed by the statistics described above at point c in section 4 above.

The user must have been aware that there was a problem in this circumstance. What they would have observed was the following:

1. Having completed the Bill Payment and Cash Withdrawal, the User would have either selected "Settle" or "Fast Cash". If Settle was selected then they would again have selected either "Cash" (and keyed in the amount) or selected Fast Cash.
2. This would have completed the Basket and attempted to save the basket to the Data Centre.
3. Following a failure of the first attempt, the system would automatically carry out a retry and attempt to save the basket to the Data Centre again.
4. Following the failure of the second attempt, a message would have been displayed to the User informing them that there was a failure to contact the Data Centre and did they wish to Retry or Cancel.

5. The fact that there were 4 attempts to contact the Data Centre, indicates that the User must have selected Retry and so the system would have made a 3<sup>rd</sup> attempt to save the basket to the Data Centre.
6. Following a failure of the third attempt, the system would automatically carry out a retry and attempt to save the basket to the Data Centre yet again.
7. Following the failure of the fourth attempt, a message would have been displayed to the User again informing them that there was a failure to contact the Data Centre and did they wish to Retry or Cancel.
8. The fact that there were only 4 attempts to contact the Data Centre indicates that the user must have selected Cancel this time. This would have resulted in a Forced Log Out. This means:
  - a. Horizon would cancel those transactions that could be cancelled. In this case, the BT Bill and the Cash "change" could be cancelled because (1) those transactions do not get processed until the basket completes and in this instance the basket had failed.
  - b. The cash withdrawal transaction for £80 could not be cancelled. Prior to the disconnect, Horizon had already contacted the customer's bank to confirm that a cash withdrawal could be made from the customer's account. The customer's bank had therefore already registered the withdrawal from the customer's account and this transaction could not be cancelled.
  - c. Horizon would then re-calculate the basket showing that the customer should have £80. This is because the only remaining transaction would have been the irreversible cash withdrawal for £80.
  - d. Horizon would then have printed out 3 copies of the Disconnected Session Receipt which would indicate this (one for Customer, one for Branch records and one to attach to the till to aid with recovery).
  - e. It would **not** have printed out the AP receipt for the BT Bill.
  - f. Horizon would then have logged out and disconnected.
9. The SPMR should then have made sure that, in accordance with the Disconnect Receipt, the Customer had been given cash to the sum of £80. It is at this point that the SPMR failed to follow the instructions from Horizon in that he did not ensure that the customer had received £80.
10. The system would then display the Log On screen.
11. Again the User must have been aware of this as at 09:37:19 they Logged On again
12. As part of the Log On process, the system checks the identity of the last basket successfully saved at the Data Centre (which appears to be 537803) and compares it with the identity of the last Basket successfully processed by the counter (in this case 537802). As the last basket saved in the Data Centre has a higher number than that considered to be the last successful basket processed by the counter, the recovery process in the Data Centre would then repeat the process that the counter carried out at step 8 above. This would have generated the Recovery Basket stored at 09:37:44 as Session 537805 (ie. the reversal of both the BT Bill and the cash "change" but a valid transaction for the Cash Withdrawal). A Recovery receipt would have been printed reflecting these transactions.

6. **What the Logs don't support**

There are some parts of the initial statement that are not supported by the logs. Specifically:

1. "At approximately 10:32 a customer tried to pay his £76.09 BT phone bill with his LTSB card but was not successful. The customer then withdrew £80.00 cash and used this to pay the phone bill."

There is no indication of any attempt to pay this by card. Closer examination of the Business Rules show that it is not permissible to pay for a BT Phone Bill with a Credit Card. However the LTSB card used for the Banking withdrawal was a Debit (and not a Credit) Card. It could be that an attempt was made to settle with a different Credit Card and the system indicated that it was not acceptable. There is no record of any attempt to use the LTSB card as a Payment card. Also, when checking for a failed card transaction in an earlier basket (point 3 in section 4), the value of the failed payment was £141 and not £76.09. Therefore this couldn't be the failure referred to.

It would appear that the only attempt to pay this BT Bill was with the withdrawn cash.

2. "The SPMR stamped the customer's phone bill to evidence receipt of the cash, returning change of £3.91.". This may be what the SPMR did. However if so he was not following the instructions provided by Horizon as outlined in section 5. It is recognised that the bill may well have been stamped prior to the Disconnected Session Receipts being produced.

As explained in section 5, there were a number of indications that the transaction was not successful, and so the Bill payment had not been recorded:

- a. The fact that the SPMR was asked twice about Retrying after failed Data Centre interactions
  - b. The fact that 3 copies of the Disconnected Session Receipt would have been printed out on the counter printer
  - c. The fact that no AP receipt to confirm payment of the Bill was printed
  - d. The fact that the User had to Log On again and a Recovery Receipt was printed.
3. "The SPMR did not initiate those reversals nor did he receive any reversal notifications." The SPMR did not initiate the reversals but he would have been notified. When Recovery was carried out (point 7 in section 4) a Receipt would have been printed. Also messages are displayed to the User during the recovery process.
  4. "The SPMR raised this as an issue with Chesterfield but was told that due to cost issues Horizon transaction data could not be requested. It was implied that the SPMR had stolen the money and he was told to make good the shortage." This is addressed in section 7 below.
  5. "This meant that 2 people had paid the phone bill (the customer, who handed cash to the SPMR and the SPMR on instructions from Chesterfield)." The logs show that if the customer has paid the bill, this payment was not recorded on Horizon. This means that the phone bill had not been paid as intended at the time of transaction. If in fact the SPMR had received the payment and not recorded it on Horizon, then there should be a corresponding surplus of cash at the branch.

It was to instigate the bill payment that FSC raised the Transaction Correction.

6. "The SPMR was informed that he should have a surplus of £76.09 due to the reversal of the transactions.". The figures in section 4 relating to cash declaration indicate that there was a surplus of around £63 that day.
7. "The SPMR disputes this conclusion, but the more important issue here is the automated, unreported, reversal of the transactions.". The Automated Reversal is explained in section 5. That section also explains that the SPMR should have been aware of this for a number of reasons.

**7. FSC's Input**

“The decision by P&BA not to examine the Horizon detailed transaction data on cost grounds delayed or denied the SPMR the opportunity to process the transactions correctly or understand what happened.”

- It is noted that this is not an issue with Horizon but rather a question around Post Office Ltd's processes for investigating disputes raised by SPMRs.
- Horizon does retain full transaction logs. There is no question of this information not being available or being somehow inaccurate.
- These logs are not however readily accessible by Post Office and must be requested from Fujitsu at a cost. Post Office therefore only accesses the logs when it is proportionate to do so and when an issue cannot be resolved using other available information.
- In the case raised in this Spot Review, there was no need to access the transaction logs. First, it was possible to determine what had happened in the branch from the "disconnect" and "recovery" receipts alone.
- Secondly, the transaction logs would not have assisted the SPMR. The transaction logs would only show the reversal of a transaction, not the method or reasons for that reversal. The logs would therefore not show that the reversals were automatic responses to a disconnect scenario.
- Thirdly, to extract any meaningful information from the Horizon records requires the "raw" transaction data to be interrogated. This cannot be done without technical expertise.
- Fourthly, the above analysis proves that Post Office's assessment, based on the information available at the time, was correct and its approach justified.

### HORIZON – SPOT REVIEW 11

Reference Number:	SR011	Issue Type:	GIRO Payments - Apparent Loss of Audit Trail	Date:	Not date-specific (this is a general point)
SPMR Name:	Tracey Ann MERRITT	PO Branch:	Yetminster and Chetnole	FAD:	267518
Loss to the SPMR?	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	Current Status:	Awaiting response from POL	Category:	1 <input type="checkbox"/> 2 <input type="checkbox"/>  3 <input type="checkbox"/> 4 <input checked="" type="checkbox"/>
What the SPMR says happened					
<p>SPMRs cannot properly account for GIRO payments that have been made in their branch. The absence of <i>printed</i> Receipts (that could be retained by SPMRs for future reference and investigative purposes) means that it is difficult to investigate prior transactions. Consequently, incoming TCs from POL cannot be matched to previous GIRO transactions and the SPMR simply has to “trust POL and accept the Transaction Correction”. Previously ‘slips’, relating to every day’s transactions, were held in branch and could be used to investigate subsequent queries. Whilst Horizon always prints out a Receipt for the customer, it never prints out one for the counter clerk. Horizon now only shows the SPMR an AGGREGATE of ALL of that day’s GIRO transactions and the total that day’s Customer Card Withdrawals. Furthermore, it is no longer possible to print a Transaction Log relating to any day prior to 42 days before the date of the Transaction Log Request. This means that when an SPMR receives a TC more than 42 days after the transaction to which the TC refers, the SPMR cannot investigate the matter and cannot mitigate any loss charged to them. It would appear that a significant number of TCs are sent out more than 42 days after the underlying transaction(s). SPMRs are questioning <i>whether it is reasonable that POL holds them accountable for entries in their branch’s books which they are unable to check and yet are expected to be accountable for.</i></p>					
Investigative work done					
<ul style="list-style-type: none"> <li>POL is requested to provide statistical information about the number of days taken to send TCs to the SPMRs in the Horizon Investigation Sample</li> <li>POL is requested to comment on the inability of SPMRs to disaggregate figures for which they are held accountable.</li> </ul>					
POL Response					
CONCLUSIONS					

## Horizon Spot Review - Response

### SR011: Giro Payments – Apparent Loss of Audit Trail

#### **Executive Summary**

It is noted that this Spot Review does not raise any suggestion that there is an error in Horizon. Rather, it is focussed on Post Office procedures and branch processes.

There is no loss of audit trail for Giros because:

1. Branches are able to review on Horizon all transactions (including the deposit or withdrawal of Giros) in the last 60 days; and
2. Branches are able (and indeed required) to print and retain a Daily Giro Report showing all Giro deposits and withdrawals on a given day.

Transaction corrections are in the vast majority of cases supported with either evidence or a description of the error in question. This allows branches to investigate any Giro transactions against the records retained in branch.

Post Office Ltd is confident that adequate information is available to Sub-postmasters (**SPMRs**) for them to review Giro transactions.

#### **Spot review scope**

Second Sight has been provided with Horizon Transaction Data from 1 March 2007 to 31 January 2012 recorded by Yetminster 267518. From the Spot Review, the following key issues have been identified:

1. SPMRs do not have access to records of individual Giro transactions to investigate subsequent transaction corrections.
2. Horizon does not print off branch receipts ("slips") for Giro transactions.
3. SPMRs cannot properly investigate transaction corrections in relation to Giros.

#### **General background**

"Giros" refers to a method of making deposits and withdrawals from a banking system operated by Girobank. This is distinct from Green Giros which are used for benefit payments. Green Giros are not considered in this response.

Reference to Horizon means Horizon Online unless stated otherwise.

The key steps in the process for transacting a Giro deposit or withdrawal is as follows:

1. Customer presents a Giro at the counter.
2. SPMR enters the transactions details in to Horizon (deposit / withdrawal / amount / etc.)

3. Horizon produces a transaction receipt for the customer.
4. At the end of each day, the SPMR prints a Giro remittance slip from Horizon that shows details of each Giro transaction that day.
5. The SPMR places the Giros and the Giro remittance slip in a pouch and sends this to the Post Office [cash centre?].
6. After printing the Giro remittance slip, Horizon automatically prints a Giro Daily Report. This report shows details of all Giro transactions that day.
7. The [Counters manual?] requires that SPMRs keep a hardcopy of the Giro Daily Report for their own records. [PLEASE PROVIDE A COPY OF THIS SECTION OF THE MANUAL?]

**Issue 1: SPMRs do not have access to records of individual Giro transactions to investigate subsequent transaction corrections.**

This is incorrect. SPMRs have access to the following records:

1. Horizon retains details of all transactions (including Giros) in the last 60 days. SPMRs are free to interrogate this information as required. (Note: the old Horizon system only retained records for 42 days which is the source of the reference to 42 days in the Spot Review).
2. After this 60 day period, SPMRs can use the Giro Daily Report to investigate historic Giro transactions. These reports will present a complete transaction history for Giros if the SPMR has properly followed the correct procedure (as described above).
3. SPMRs can also choose to print a "stock unit" report each day which will show the total number and value of Giros transacted each day. This report does not present a line by line breakdown but can be used to ensure that other reports (such as the Giro Daily Report) have been properly produced, remitted and retained in branch.

**Issue 2: Horizon does not print off branch receipts ("slips") for Giro transactions.**

This statement is correct. Horizon only prints a receipt for the customer. It does not print a receipt for the SPMR to retain (commonly known as a branch receipt). The printing of branch receipts is unnecessary given the other information available to SPMR – see Issue 1 above.

The Spot Review suggests that historically Horizon did print branch receipts for Giros. For the sake of clarity, no version of Horizon has ever printed branch receipts for Giro transactions.

**Issue 3: SPMRs cannot properly investigate transaction corrections in relation to Giros**

Transaction corrections are issued to branches where there has been an error in the processing of Giros. The key steps in the process for issuing a transaction correction for a Giro are as follows:

1. An error is identified. Typically this is because the number or content of the Giros recorded on Horizon by the SPMR as being remitted to the [cash centre] is different to the number or content of the Giros

received by the cash centre. Sometimes, the error is generated by a discrepancy between Girobank's records and the Horizon record as input by the SPMR. There are however many other possible causes of an error.

2. Post Office investigates the error. This may involve informally contacting the SPMR at an early stage before a transaction correction is issued.
3. If the investigation concludes that the error was caused in branch, a transaction correction is issued to the branch.
4. The time taken to issue a transaction correction varies depending on a number of factors including the nature of the error and the response of Girobank and the SPMR to Post Office's investigations. Further, some errors are only discoverable by customers who may take weeks/months to identify the error before contacting Girobank / Post Office. Post Office tries to investigate all alleged errors itself before engaging SPMRs so not to waste SPMRs' time on issues that can often be resolved without their involvement.
5. In the vast majority of cases the transaction correction will be supported by either (1) documentary evidence or (2) a commentary explaining the error on the face of the transaction correction. Post Office endeavours to provide a clear picture of the error to the SPMR with every transaction correction. However, given the significant volume of transaction corrections processed everyday, it is accepted that a very small number may not contain complete information.
6. The SPM can contact Post Office at any time to request more information about the transaction correction.
7. The SPM has a choice of whether to accept or dispute a transaction correction. The dispute process is described in the "Horizon online help" at page btsb31.

Given the above process and the information available to SPMRs described in Issue 1, it is possible for SPMRs to properly investigate any transaction correction regarding a Giro.

It is noted that various other in-branch processes may also reveal an error before a transaction correction is issued (such as end of day processes and end of trading period processes).

### **Automated Payments**

In an e-mail chain headed "SR011 - Two Clarifications Required" and dated 6 March 2013 it was indicated that this spot review may also extend to Automated Payments. To the extent applicable, the above processes are similar to those for Automated Payments.

## HORIZON – SPOT REVIEW 12

Reference Number:	SR012	Issue Type:	Missing cheques	Date:	12/08/2004 - 07/04/2006
SPMR Name:	Jo HAMILTON	PO Branch:	South Warnborough	FAD:	092904
Loss to the SPMR?	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	Current Status:	Awaiting response from POL	Category:	1 <input type="checkbox"/> 2 <input type="checkbox"/>  3 <input type="checkbox"/> 4 <input checked="" type="checkbox"/>

## What the SPMR says happened

Part of the shortfall charged to the SPMR by POL, and cited by POL in court when the SPMR was charged with False Accounting, was attributable to missing cheques that the SPMR had sent to Chesterfield for processing. Several cheques presented to the SPMR by customers have never cleared through the customers' bank accounts. One of the SPMR's regular customers has provided a list of cheques that are evidence of this. It has not been possible to re-build the entire audit trail of what happened and match this to Transaction Corrections ('TCs'). The SPMR also reports that she once found pouches (known as 'Stripeys') containing customer cheques in the street outside her Branch, these seemingly having been accidentally dropped by the Royal Mail collector.

TCs typically came out 3 months or more after the processing date, making it virtually impossible for the SPMR to recover funds from the customer. The SPMR did not raise this matter at trial, since the significance of this matter was not identified until after the trial concluded.

The SPMR also reported an article in The Sunday Times' 'Question of Money' column on January 28<sup>th</sup>, 2007 describing a near-identical situation concerning the purchase of £2,500-worth of Premium Bonds using a cheque that never cleared. The Sunday Times reported that POL said that "the cheque could have been 'mutilated' in the clearing process". The article also stated that after numerous attempts to get anyone to take the matter seriously the SPMR was told by a POL employee, "not to worry about it, just take a holiday with the money."

## Investigative work done

Loss of cheques, whether in the branch, in the delivery chain or in POL's Processing Centre, could well result in a real financial loss to an SPMR. However, such an event should not give rise to a *mysterious* or *unexplainable* shortage. The Post Office's standard procedures are designed to identify the non-receipt of cheques sent to Chesterfield for processing. Non-receipt of cheques would normally give rise to a TC, as would a cheque returned unpaid by the customer's bank. Unfortunately, due to the length of time that has elapsed in this case, neither the SPMR nor POL has relevant records to establish whether the SPMR was notified *in a proper and timely manner*.

SPMRs typically have no record of cheques that are received from customers and sent to the Processing Centre. Consequently, identifying the relevant customer is far from straightforward. If the SPMR is not able to match customers who have presented cheques to the relevant TC, then they will be unable to effect recovery. POL would however, be entitled to recover the missing funds from the SPMR under the standard contract.

- POL is invited to comment on the apparent inequity of POL mitigating losses arising from lost cheques by making recoveries from the SPMR whilst denying the SPMR the opportunity to make recoveries from customers, due to POL not sending out TCs in a timely manner.

POL Response

CONCLUSIONS

-

## **Horizon Spot Review - Response**

### **SR012: Missing Cheques**

#### **Executive Summary**

It is noted that this Spot Review does not raise any suggestion that there is an error in Horizon. Rather, it is focussed on Post Office procedures and branch processes.

It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the FSC. Post Office's policy is that a branch will only bear the cost of a lost cheque if the SPMR has failed to follow proper operation processes and POL has been unable to mitigate the loss by other means. If the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, POL will absorb this loss and not pass it on to the SPMR.

Only around 2% of missing cheque cases results in transaction corrections being issued to a branch.

#### **Spot review scope**

From the Spot Review, the following key issues have been identified:

1. There are "mysterious" or "unexplained" shortages in the remittance of cheques from branch to POL which lead to transaction corrections being issued against SPMRs.
2. By the time a transaction correction is raised in relation to a missing cheque, it has become impossible for the SPMR to identify the customer who handed over the cheque. The SPMR cannot therefore mitigate the loss and this is inequitable.
3. Various other matters specific to the case of Ms Jo Hamilton.

#### **General Background**

##### Branch process

Most Post Office branches are entitled to accept cheques from customers as the method of payment for a range of designated counter transactions. The cheque should be scrutinised and the reverse of the cheque needs to be date stamped, initialled and relevant transaction details recorded on the reverse. This will enable identification of the relevant product and customer.

The method of payment should be recorded as a part of the Horizon transaction. The cheque is then recorded on Horizon as a part of the branch stock held. There are no customer details recorded on Horizon or retained in branch.

All cheques taken should then be despatched from the branch via the final Royal Mail collection of the day (except Fridays). The branch process for remitting cheques is as follows:

1. SPMR produces a cheque listing report from Horizon.

2. SPMR verifies that the cheques held in the till match (volume and value) against the cheque listing report.
3. The total cheque value is then marked on Horizon as being remitted to POL (known as "remmed out").
4. A further cheque listing report is then produced. This will show the cheques being remmed out as a negative value. The report total will now total zero.
5. The cheque listing report is cut off. The branch cheque stock will now also be zero.
6. A Batch Control Voucher (BCV) is then manually completed to show number of cheques, value and despatching branch. The cheques are attached to the BCV. The cheques are then despatched for processing in the relevant envelope via Royal Mail to the Financial Service Centre (FSC) - not Chesterfield as incorrectly stated in the Spot Review.
7. Horizon cheque listings and remittance slips are retained in branch.

#### FSC process

The POLSAP finance system at the FSC is automatically uploaded each night via the Horizon-POLSAP Finance Interface. The cheque team in FSC are able to view this data the day after the transactions and will see the outward remittances recorded (day 1). All Horizon transactional data is "polled" into FSC ledgers at summary level via this process.

On day 2 an electronic file will be received from the cheque processor via an automatic upload into POLSAP to represent the actual cheques received from each branch.

The cheques sent by the branches are then compared and cleared by FSC against the POLSAP records where they match each cheque against its "remitted" value.

Approximately 1,000 entries will remain unmatched each day (ie. there is a discrepancy between the cheques received by FSC and the information sent via Horizon by SMPRs about cheque remittances) and could be an indication of missing cheques. Many cases are resolved quickly (ie. late delivery by Royal Mail or the SPMR missed the collection). There will be around 100 cases per month where it becomes apparent that a cheque has actually gone missing.

#### Investigating lost cheques

It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the FSC. Post Office's policy is 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 the branch, POL will absorb this loss and not pass it on to the SPMR. In around 98% of cases Post Office either mitigates the loss caused by a lost cheque or absorbs the loss itself. Only approximately 2% [TO BE CONFIRMED] of missing cheque cases result in transaction corrections being issued to a branch.

The process for investigating missing cheques is as follows:

- The transaction to which a missing cheque relates is identified from the information input into Horizon by the SPMR.
- Branches will be contacted when the missing cheque case is set up to see if the cheque can be found in branch or if they are aware of which customer has presented the cheque which has subsequently gone missing.

- If the branch cannot find the lost cheque, a variety of techniques (depending on product/information available) is employed to identify the customer and their address from the transaction data.
- The customer is then contacted to request a replacement cheque. If a replacement cheque is provided then the loss to Post Office is avoided.
- If a replacement cheque is not forthcoming, the relevant client organisation (ie. the product supplier, say Bank of Ireland, Environment Agency, etc.) is informed that the payment for that particular transaction has not been received and the transaction is reversed where possible. By reversing the transaction, the loss to Post Office is avoided.
- Alternatively, if Post Office is unable to identify the customer details, the relevant client organisation may be asked to try to contact the customer directly for payment. By payment being made direct from the customer to the client, the loss to Post Office is avoided.
- If payment cannot be recovered from the customer or the client and the transaction cannot be reversed, Post Office will absorb the loss of the cheque provided operational instructions have been followed at the branch.
- There are 2 typical scenarios where an SPMR has failed to follow operational processes and will be held liable for missing cheques:
  1. Cheques have been accepted by the SPMR for a non-cheque acceptable product (e.g. Bureau 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. If the transaction record cannot be identified then it may not be possible to identify the customer and/or client. This then frustrates Post Office's usual loss mitigation steps described above.
  2. The method of payment has not been correctly recorded on Horizon with cheques as the method of payment and it subsequently proves impossible to associate any transactions with the cheques. Such an instance will typically be illustrated by branches recording multiple/all transactions through "Fast Cash" and then introducing a bulk cheque value to Horizon via a "Cash/Cheque Adjustment" at the end of the day prior to remitting out.

**Issue 1: There are "mysterious" or "unexplained" shortages in the remittance of cheques from branch to the POL which lead to transaction corrections being issued against SPMRs.**

As explained above, where the root cause of a missing cheque cannot be identified, Post Office absorbs the loss itself and does not pass the loss on to SPMRs. Loss caused by missing cheques is only passed on to SPMRs by way of a transaction correction if the SPMR has not followed the set operational processes for taking and recording cheque transactions.

**Issue 2: By the time a transaction correction is raised in relation to a missing cheque, it has become impossible for the SPMR to identify the customer who handed over the cheque. The SPMR cannot therefore mitigate the loss and this is inequitable.**

As explained above, a transaction correction is only issued to a SPMR where the SPMR has failed to follow proper operation processes and POL has been unable to identify a customer by other means. In this scenario, it is fair and equitable that the loss should be passed back to the SPMR.

It is recognised that once a transaction correction is issued, a SPMR may not be able to identify the relevant customer in order to obtain a replacement cheque. Post Office tries to investigate all missing cheques itself before issuing a transaction correction so not to waste SPMRs' time on issues that can often be resolved without their involvement. It is noted however that the transaction correction date is largely irrelevant as an enquiry will, in most cases, have already been raised with the branch about a missing cheque.

Even if there was a significant delay in notifying an SPMR of a missing cheque, providing additional Horizon data or transaction records will not provide branches with the information to identify a customer as it will be an error in the Horizon data that has caused the cheque to go "missing" in the first instance.

If SPMRs follow operational instructions when processing cheques, they will not be held liable should if cheques subsequently go astray. The prime requirements are for branches to only accept cheques as a method of payment on cheque acceptable products and to record transactions accurately with cheque as the method of payment on Horizon. By following the set operational processes, SPMRs can avoid any liability for missing cheques.

### **Issue 3: Various other matters specific to the case of Ms Jo Hamilton**

Horizon data is held for 7 years. This means that no transactional information is available to investigate this specific case.

It is also impossible to comment on what an unnamed Post Office employee is alleged to have said back in 2007 as reported in the Sunday Times. In any event, it is impossible for a SPMR to just "take the money" generated by a missing cheque as, by its very nature, a missing cheque does generate extractable cash. Post Office can only assume that the SPMR has wholly misunderstood the processes around cheque remittances.

## HORIZON – SPOT REVIEW 13

Reference Number:	SR013	Issue Type:	Missing cheques	Date:	23/05/2005 – 15/08/2005
SPMR Name:	Jo HAMILTON	PO Branch:	South Warnborough	FAD:	092904
Loss to the SPMR?	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	Current Status:	Awaiting response from POL	Category:	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input checked="" type="checkbox"/>
<b>What the SPMR says happened</b>					
<p>A TC was issued to her branch in respect of a TV Licence paid for by one of her regular customers. The customer had presented a cheque in the sum for £126.50 on 23rd May 2005. This cheque was sent in a pouch along with four other cheques to Chesterfield for processing. On 15th August 2005, a TC was issued to her branch by POL. The TC said that: "Following an enquiry from TV Licensing at Bristol a licence was issued to Mr XXXXX (name was supplied) on 23 May 2005 in Week 09 but not entered onto Horizon. Therefore £126.50 to be charged".</p> <p>The customer received his TV Licence and the cheque did clear and was debited to his bank account (a copy of the cheque is on file).</p> <p>The reason for the TC is not clear, as correct payment for the TV licence appears to have been made. The SPMR was unable to reclaim the money i.r.o. the TC and has suffered a loss which was not caused by her error.</p> <p>See attached documents</p>					
<b>Investigative work done</b>					
<ul style="list-style-type: none"> <li>POL is requested to comment on the matter reported by the SPMR</li> </ul>					
<b>POL Response</b>					
<b>CONCLUSIONS</b>					
<ul style="list-style-type: none"> <li></li> </ul>					

Post Office Ltd/Transaction Processing (Chesterfield)

IMMEDIATE

Transaction Processing  
Post Office Ltd  
NO 1 FUTURE WALK  
Chesterfield  
Derbyshire  
S49 1PF  
Telephone 01246 54

Issue Date 15/05/05

THE POSTMASTER

The Cash Account dated 25/05/05 (week number 09) contained an error which requires immediate correction (see notes for guidance)

ITEM	CASH ACCOUNT	CORRECT AMOUNT	DIFFERENCE
TVL FEES	0 00	126 50	126 50

REF 99 TV LICENCES  
FOLLOWING AN ENQUIRY FROM TV LICENCING AT BRISTOL  
A LICENCE WAS ISSUED TO MR P LOADER ON 23/05/05 IN  
WEEK 09 BUT NOT ENTERED ONTO HORIZON  
THEREFORE £126 50 TO BE CHARGED  
THANK YOU  
DAVID CROMPTON  
01246 542150

\*\*IMPORTANT: This error notice must be returned to Chesterfield in your Brown Pouch

THE POSTMASTER  
(IN CONFIDENCE)  
BY 1246 542150

## Horizon Spot Review - Response

### SR013: Missing Cheques

#### **Executive Summary**

Due to the age of the transaction in question in this Spot Review (2005), the transaction history is no longer available and a detailed investigation cannot be conducted.

Nevertheless, it is thought (though this cannot be proven conclusively) that this case does not relate to missing cheques but rather to a TV licence transaction correction. In Post Office's experience this type of situation arises where a SPMR fails to properly record a TV licence transaction on Horizon.

In any event, it is noted that this Spot Review does not appear to raise any suggestion that there is an error in Horizon. Rather, it is focussed on Post Office procedures and branch processes in one specific case.

#### **Detailed Response**

Below is one possible explanation of what may have happened in this case. However, as this transaction took place in 2005 there are no longer any records available to fully investigate this matter.

1. In 2005, TV licences could be renewed at Post Office branches.
2. It is thought that the customer presented his/her TV licence renewal at the branch. The SPM then accepted a cheque in payment, stamped the TC licence as having been renewed but did not process the transaction through Horizon. The stamp on the licence is unique to that branch and shows the date of the transaction.
3. As the transaction was not recorded on Horizon, the TV licencing authority will therefore not have received a notification via Horizon that the customer's licence had been renewed.
4. Further, the customer's cheque will initially not have formed part of the branch stock as Horizon would have no transaction on record.
5. As the cheque (for £126.50) was ultimately remitted out of Horizon and despatched for processing it must have been introduced manually by the SPMR onto Horizon. This will most probably have been done through a cash/cheque adjustment.
6. The impact of this adjustment will have been to increase the cheque stock by £126.50. Simultaneously, Horizon will have automatically reduced the "derived" cash position by £126.50. Assuming the branch was in balance at this point, the adjustment would have generated a "actual" cash surplus of £126.50.
7. At some later date, the TV licencing authority will have approached the customer about his/her expired TV licence who presumably then produced the stamped TV licence as evidence of payment.
8. The TV licencing authority will then have raised an error with Post Office Ltd requesting settlement for the transaction.

9. Post Office will have interrogated branch records but no licence payment will have been found for the date in question. As Post Office cannot defend the error, it will therefore have paid the TV licencing authority.
10. A transaction correction (or in 2005 this would have actually been an Error Notice) will then have been issued to the SPMR in respect of this payment.
11. This transaction correction would then net off against the cash surplus described above. This means there was no financial loss to the branch.