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Initial Complaint Review and Mediation Scheme

Suspense Account – second response

Issue

Second Sight has raised the following question of Post Office:

“Could any SPMRs have been charged by Post Office Ltd for amounts that become incorporated in suspense account balances that were subsequently taken into profit by POL or any of its Counterparty Companies, or that remain as credit balances on the balance sheet of POL or any of its Counterparty Companies?”

Post Office responded to this question in its paper of 29 July 2014. Second Sight has now raised further questions on this subject.

Summary

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Post Office’s overarching response is that if branches understand the transactions they perform, review their transactional records, review the evidence associated to Transaction Corrections and are diligent in their balancing processes and in their paperwork despatch processes, then any “charge” they bear would be due to their own process failures and not as a result of Post Office Ltd or a client benefitting at their expense.

Such “charges” would primarily be due to local discrepancies in recording transactions or due to failures in administering cash and other methods of payment in branch. Outside of such local discrepancies, the only way Post Office could pass a charge to a branch would be by way of Transaction Correction. TCs are often preceded by enquiries with a branch, and evidence is available for the TC. Branches can dispute the TC. FSC will revoke such TCs where they are found to be in error. This then is the basis of the overarching response.

However, Post Office acknowledges that it cannot make a blanket answer of “No” to Second Sight’s question. As with any process, there will always be scope for misunderstandings, loss of information and control failures both in branch and in central functions. Post Office cannot therefore definitively say that there would have been no such cases.

Post Office has processes in place to investigate differences between the client view and the branch view of transactions. Best endeavours are made to substantiate the differences such that it can be determined which client, branch and customer the value in question relates to. Post Office would then take action to resolve the specific item such that none of the client, the customer or the branch are disadvantaged. However, there are situations (particularly where the client view of transactions is based on paperwork such as paying in slips) where, despite best endeavours, none of FSC, client or branch are able to determine who the customer was who performed the transaction nor the specifics of the bank account or bill that the customer had been attempting to transact on. In such situations, and following enquiries with branches, amounts have been released to Post Office profit & loss.

Such releases follow extensive investigative work prior to being put into suspense, and thereby (three years later) being released to profit. In the table below, we set out the options available to FSC at the point of putting the value into suspense and the rationale for the policy of release.

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Option	Chosen ?	Rationale
1. Pay difference to the client	N	The client would have even less information to determine which customer it relates to and would most likely release it to P&L themselves too
2. Pay the branch	N	It is the customer's money, not the branches. Based on enquiries with the branch, the branch has already confirmed they cannot identify the customer to help resolve it
3. Retain in suspense in POL	Y	POL is in the best place to resolve it should further information come to light as it has the established links with the branch and client. No other party in the chain is better positioned to piece together a solution should more information become available.

Whether the cost of the unresolved discrepancy between Post Office and a client (whether held in the Suspense Account or otherwise) falls on a branch is not necessarily dependant on the position between Post Office and its client but principally turns on the actions of the branch in following, or not, the correct branch accounting process.

As set out in Post Office's previous paper, so long as a Subpostmaster submits the applicable evidence from their branch's records to show there was no error on their part (ie. they have followed the correct branch accounting process), Post Office will not charge that branch (or will withdraw any related charge) arising from a discrepancy even where a client maintains that there is a discrepancy.

Post Office's processes are therefore designed so that Subpostmasters are not disadvantaged by the operation of its Suspense Account and, if operated correctly, Post Office will not take into its own profit money that should have been credited to branches.

The Suspense Account

The Suspense Account² is an accounting tool for temporarily holding differences on payments moving between Post Office and its clients, where the client and Post Office view of what is payable or receivable are not the same. The account is fundamentally for differences on the transfer of "customer monies" to and from clients (such as bank account deposits), however, in practice some differences on commission payments have also been handled through it. These were where payment were due by Post Office to clients as the clients share of commissions paid by customers (for example, commission share on travel insurance policies sold).

The operation of the Suspense Account in relation to holding disputed shares of commission to clients is outside the scope of this note and of the Scheme as these payments do not affect branch accounting.

The operation of Post Office's Suspense Account is part of wider range of reconciliation processes used to identify, assess and correct discrepancies between accounting records held by branches, Post Office and clients. We believe it would be helpful to put these in the wider context before returning to the specific question.

² There are in fact a number of different accounting ledgers that hold sums in suspense for different clients, products and services but for the sake of this paper we refer to them collectively as the Suspense Account.

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Transactions with customers may be performed directly in Horizon or on separate point of sale devices (eg. ATM, Camelot) which in turn then require recognition on Horizon.

Transactions conducted directly in Horizon lead to accounting postings in central finance systems ("POLSAP"). The postings go to "vendor" (client creditor and client debtor) accounts, with a double entry in method of payment accounts such as card, cheque or cash. Payments would be made to the client from the vendor accounts. Alternative data sources such as reports from clients and banking intermediaries may give different views (for reasons explained later) and if the differences cannot be resolved then they are moved to client suspense.

For transactions not conducted directly in Horizon, Post Office operates matching accounts. It receives two sets of double entry feeds to POLSAP. There is a feed from the client system (double entry to vendor and matching account). And there is a feed from Horizon (double entry to matching account and method payment). Differences on the matching account are investigated, and if they cannot be resolved by enquiry with branch and client, then they are moved to client suspense.

The policy for values held in client suspense is that they are retained there for 3 years and then released to Post Office Profit & Loss.

The readily available data for recent releases, analysed by client, is the last 4 years.

These should be considered within the overall context of Post Offices transacting around £60bn of total business each year.

Releases to P&L (excluding commission creditor differences)

	£'000
2013 / 14	104
2012 / 13	234
2011 / 12	207
2010 / 11	612

Within that period, the ten largest individual releases were as follows:

1	107,845.57	MCC Q3 Release PB LLOYDS TSB
2	102,440.00	Unable to breakdown posting due to POLSAP archiving
3	100,288.00	RELEASE OF 3YR ANNIVERSARY POSTINGS FOR HANCO ATM
4	92,228.05	EPAY 3YR RELEASE 6/2010
5	62,266.72	Q4 MCC RELEASE 3 YR ANNIVERSARY - AON TRAV
6	60,032.65	RELEASE OF 3YR ANNIVERSARY POSTINGS FOR PB LDS/TSB
7	59,923.49	MCC Q4 Release PB LLOYDS TSB
8	56,106.64	Q2 & Q3 MCC RELEASE 3 YR ANNIVERSARY -PAYOUT
9	50,719.50	PAYSTATION 3YR RELEASE 6/2010
10	47,000.00	Q4 MCC RELEASE 3 YR ANNIVERSARY -CARD ACCOUNT (CAP

The rationale for such releases and confirmation that best endeavours had been made to identify the clients, branches and customers involved is as follows.

Items 1, 6 and 7 – Manual Personal Banking clients

These are situations where a paying in slip is required from the customer. The slip is sent to IPSL, who consolidate and scan material received, in order to provide reports to each bank of

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amounts due to them. In the event that the paying in slips are not sent to IPSL and where required copies are not retained in branch, then Post Office is unable to advise the relevant bank as to which customers account should be credited for these deposits. With the contacts in place, Post Office Ltd is better placed than the branch or client to be able to piece together any new information that comes to light and therefore POL holds these differences in suspense, pending release 3 years later if not resolved. Formal enquiries are made of the branches, as it is clear which branches are impacted. The branch is not disadvantaged. If anyone is disadvantaged it is the customer, however, if a customer does make a complaint to the bank or to Post Office then that will give Post Office the missing link to resolve the suspense item and make the supported payment to the relevant bank. Complaints may also be made direct to banks, which are written off for customer satisfaction with no communication at the bank, and therefore it is possible in the end that no one is disadvantaged.

In light of the frequency of personal banks appearing within the Suspense Releases and in order to clarify what we believe are misunderstandings regarding Personal Banking in Second Sight's Second Report, we provide a more detailed narrative as to banking in Appendix A to this document.

Item 2 – An amalgamation of amounts from accounts which have been archived where we believe the same principles would have applied, but we are unable to drill into it for further information

Item 3 – The settlement from Hanco to Post Office for withdrawals from ATMs exceeded the amounts reported by branches.

Credit differences on ATMs are in respect of balancing errors and unidentified retracts in the ATMs. In each case, branch by branch, Post Office FSC would contact the branch to explain that the bank had reported a different dispensed value to the one recorded by the branch in Horizon.

The bank would not be aware that a retract had happened until a customer or branch flags an issue. The value recorded by the bank would therefore be the total intended to be dispensed, not reflecting that some had been retracted.

If the branch had identified and accounted for retracts then a difference would arise and would be proper to be there. The branch books, in that case, would properly align to the cash on hand and it would be evident to all that there was a customer retract to be resolved. That value would then be held in suspense pending resolution with the customer. If, however, the customer never came forward or could not otherwise be identified then the value would ultimately be released to profit.

It would not disadvantage a Subpostmaster.

Item 4 – For Epay, customers will have come into branches with tokens (eg. magstripe cards or bills) that were not payable in post offices or which were unreadable by Horizon (eg. due to damage to the magnetic strip on the card). The branch may, in good faith, have attempted a workaround to manually key in the details of the token as a manual transcash style payment. If the transaction was not actually valid to be conducted in a post office or if the code was miskeyed by the branch then, although Horizon accepted it, the client would have rejected it on receipt of the data file from Horizon.

FSC would make enquiries with the branch, but if no further information can be obtained as to the customer or the intended payee then Post Office transfers the amount to suspense.

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Item 5 – Aon – we expect these to relate to the “commission creditor” release, however, we are unable from the narrative in our systems to confirm that. The accounts from which the amounts came have been cleared down and therefore we cannot drill any deeper into the posting history. However, on the basis that they do relate to “commission” they would not have any relevance to the branch.

Item 8 – Payout clients prefund Post Office Ltd in order to then pay customers in branch for the encashment of payout vouchers. Payout schemes are usually for defined periods related to specific events (eg. refunds to consumers for unexpected charges when voting by phone in a TV show). At the end of a scheme, Post Office pays any residue on the prefunded account back to the client. Such a residue would arise because not all the expected customers came into branch to encash their vouchers. In this instance, several clients confirmed to Post Office that they did not expect the residue to be paid back to them. This was perhaps as a result of people changes or other loss of information at the clients, however, in short they said the reimbursement was not due to them. Post Office therefore transferred the values into suspense.

Item 9 – the accounting process for PayStation is that the terminals transmit a data file to Ingenico, who tell Post Office Ltd what the transaction totals were, in order that a Transaction Acknowledgement can then be sent to the branch the next day to update the branch accounts. There have been periods when there were connectivity issues downstream from the PayStation. In that event it can be necessary to refer to printed batch summaries from the PayStation to determine the values transacted and to whom they relate. Without the TA, the branch would have a cash surplus as it needs the TA to update its accounts. FSC would therefore send a TC to the branch to correct their accounts (it would not require them to put any money in) but it may still be unclear what the client or customer was. If, following enquiries with Ingenico and the branch, the customer cannot be identified then FSC transfers the value of the creditor into suspense.

Item 10 – Relates to a difference between branch summaries of transactions and a summary fed back from the banking network which drives the payment. Whilst root causes of other differences have been determined this one remains an ongoing enquiry with Fujitsu as regards the NB102 report. Provided that the branch properly accounted for the original transaction then we do not expect the resolution of this to lead to a credit being due to the branch. However, we will re-escalate this for investigation within Fujitsu.

Credits to the Suspense Account

Second Sight has asked Post Office to focus on credits in its Suspense Account. In relation to branch accounting, a credit to the Suspense Account can occur in two ways:

- Transactions initiated in a branch which result in Post Office paying money to a client (eg. a customer pays a utility bill at a branch and Post Office pays a sum to the value of the bill to the utility company client).

A credit will occur when the records on Horizon (as generated by a branch) show that a **greater** amount is due **to** the client than the client or the payment channel intermediaries recognise as due to the client. By intermediaries we refer to organisations such as LINK or IPSL who process data between point of sale operators and the banks. LINK handle online banking transactions and IPSL handle cheques

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and paying in slips. Differences are investigated with the various parties, as explained earlier, but if despite best endeavours it has not been possible to identify the impacted customer, then the value is moved to the Suspense Account as a credit.

- Transactions initiated in a branch which result in Post Office receiving money from a client (eg. where a customer withdraws cash from their bank account at a branch and the client bank then reimburses Post Office to the value of the withdrawal).

A credit will occur when the records on Horizon (as generated by a branch) show that a **smaller** amount is due **from** the client than the client's records show, leading to the client paying an extra amount to Post Office which Post Office does not consider to be due. If the discrepancy cannot be resolved, despite best endeavours, then it is moved to the Suspense Account as a credit.

Credits in the Suspense Account that remain unresolved for 3 years are moved to the Post Office P/L Account – effectively Post Office absorbs these credits as profit. The operation of a suspense account in this way is standard practice for most businesses, and in the context of the overall monetary flows handled by the business

Second Sight is concerned that an unresolved positive discrepancy in Post Office's favour at the client level may be placed in the Suspense Account as a credit and then be absorbed as profit by Post Office when in fact it reflects a loss in a branch and should therefore have been returned to the branch to balance out that loss.

Whether a positive discrepancy arising from a client reconciliation (or part thereof) is returned to a branch depends on a number of factors: the nature of the underlying error/dispute, whether a transaction correction has already been issued to a branch, whether the branch has disputed the transaction correction (so that it has been withdrawn or suspended), etc.

The general principle followed by Post Office when considering whether to return a positive discrepancy to a branch is to make an enquiry with the branch and explain the difference that has been identified:

- 1.
2. If upon FSC explaining the particular difference to the branch, the branch confirms or realises that they made an error in accounting and are able to explain that, then FSC would return the credit to the branch
3. If the branch locates missing paperwork or is otherwise able to help identify the impacted customer (to whom the credit relates) then FSC will make the necessary payment to the client with the details of the customer
4. If a branch has followed the correct accounting process in branch (which means that the branch's accounts will balance with no gain or loss (except where other unrelated issues cause a gain or loss at the same time), then Post Office will bear the loss resulting from a discrepancy between the branch records and the client's records.
5. If an error has been made in branch, whereby the branch did not take enough money from the customer or gave too much money to the customer, compared to the recorded value of the transaction then pursuant to the terms of the Subpostmaster Contract the branch is liable for any loss arising from that error. Formal escalation processes are in place for banking miskeys to enable Post Office to seek customer acknowledgement via their bank to recover keying errors and these are typically successful with the goodwill of the customer, but in the extreme situation where the

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customer refuses or where the branch does not realise it has made a mistake then there would not be a credit centrally to be returned to the branch and the branch would in that extreme have to make it good

In line with these general principles, Post Office will assess whether any positive discrepancy should be returned to a branch before moving that discrepancy into the Suspense Account as a credit. A credit put into a Suspense Account has therefore been determined, based on the information available at the time, and the enquiries made, to be due to a client, not to a branch. The credit is held in the Suspense Account for 3 years in case any further information comes to light (either from the branch, the client or a customer) that allows the underlying discrepancy to be resolved. As such, when Post Office takes a credit in the Suspense Account into profit after 3 years, it is not taking any money properly due to a branch³.

The exact implementation of this rule varies from product to product so it is not possible to describe a universal process map for how this happens.

In the table on [page xx] Post Office explained the themes underpinning the ten largest amounts released over the last four years.

Given the particular focus on Personal Banking clients in discussions with Second Sight, Post Office includes more detail on banking in Appendix A to this paper.

Rod continuing to edit below for a single summary of banking
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Before explaining these, Post Office also notes that credits in suspense are not a consequence of actions by POL to issue charges to branches. Credits arise due to a difference between how the branch recorded a transaction locally versus the downstream summarisation of data or paperwork arising from those transactions. Assuming the branch paid out or took in money to the same value as that of the transaction they recorded, then the branch would balance and there would be no discrepancy or disadvantage to the branch. If a difference arose where the client view exceeded the branch view, and if that did subsequently lead to a charge from POL to the branch, then evidence would be provided and the branch would be able to challenge the specific Transaction Correction.

[The narrative in the sections titled "Summary" and "Client Reconciliation" of draft emailed on 29 July 2014 at 12.00 may be useful too]

Appendix A: Bank deposits

Second Sight, in their second report, have stated their understanding of the reconciliation process regarding banking transactions. There may have been some misunderstandings that have led to that summary. We therefore set out below an overview of the two principle banking process areas – manual banking and automated banking (LINK enabled).

Manual Banking

³ Post Office may be taking into profit money that is properly due to a client but that is a matter between Post Office and its client that does not affect the position of a branch.

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Whilst most new banks taken on by Post Office are typically on an automated (LINK enabled) footing with POL, some remain on a manual basis. For manual banks, branches can only take deposits. (without online connectivity it is not possible to confirm that there are funds available in the customer's account to support a withdrawal).

The process for manual banking deposits is as follows

1. Branch takes a cash deposit slip and cash from the customer. Branch checks the slip is for one of our partner banks and is for cash only. The branch then enters the value of the transaction, sort code and account number into the Horizon system providing a receipt to the customer. (after relevant checks)
2. At the end of the trading day, the branch runs a "daily record of cash deposits" report (containing the sort code, account number and deposit value for each transaction) and checks the printed list against cash deposit slips taken from customers. After any adjustments (via reversal) are made, the report is cut off. The branch completes a batch control voucher to indicate the total volume and values of slips, bands all of the deposit slips together with the daily record of cash deposits and seals in an orange and white pouch for dispatch to IPSL Northampton processing centre. A second copy of the report is retained in branch for 2 years.
3. Royal Mail will collect all orange and white pouches and deliver to IPSL Northampton on the same night. IPSL scan and process the slips and sort into individual banks. The scans will produce a data file that is sent to each bank and Post Office Ltd detailing items processed. The slips are then bundled and placed into the UK exchange ready for the banks to pick up on the same night/early AM. The slips and file are reconciled before dispatch.
4. The individual banks will then deposit funds to their customers based on either the slips received or the file provided. This is at the banks discretion.
5. FSC Personal Banking Team compares Horizon entries made against each bank, against what has been processed by IPSL Northampton. Where there is a difference remedial action is taken to deposit missing funds to customers (underpayments), or retrieve overpayments where possible.
6. For underpayments, branches are contacted to get customer details from the "daily record of cash deposits". Enquiries are then made to banks to ensure that the payment hasn't been made to the customer. Once confirmed, payment is made via IPSL Northampton. If there is a deposit value that is found which cannot be attributed to a customer this is due to the daily record of cash deposits being unavailable at the branch and no office copy receipts for transactions have been kept. In these cases the funds will be moved to a creditors account pending contact from the customer.
7. If it is discovered that a customer has been overpaid, investigations will be undertaken using images of processed slips and information from POLSAP and Credence to understand why. Overpayments occur when [the following conformance failures happen in branch] -
 - a. A duplicate deposit slip is sent to IPSL. This would arise if a customer complains at branch that a deposit hasn't been credited to their account and the branch then obtains a duplicate paying in slip from the customer rather than referring the customer to their bank or to Post Office Customer Care. At that point the original slip was still in processing and gets applied to the customer's account. The branch then includes the duplicate slip in a future despatch to IPSL which in turn is treated as a genuine deposit by IPSL acting in good faith on customer documents received (ie. the paying in slips associated to the handwritten Batch Control Voucher). The branch does not put a new transaction through Horizon as no further cash was exchanged at this point. The customer's account is credited twice but only one deposit was recorded in Horizon and only one lot of money taken.
 - b. A branch refunds a customer when they complain that a deposit has not been credited to their account. [Firstly this is not a service that should be offered – it is effectively performing an unvalidated withdrawal] [Secondly, there could have been delay in the paperwork moving between the branch and IPSL. If that is the case and the slip subsequently gets processed then

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the deposit will ultimately be applied to the customer's account]

c. A branch has accepted a cash deposit slip with both cash and cheque values listed and included in the total. Cheque deposits should only be taken as "sealed envelope deposits" for which no value is recorded in Horizon and where the envelope is forwarded to the relevant bank for opening and depositing. However, if a branch wrongly accepts a manual banking deposit which includes cheques, IPSL may (in good faith) process the value of the cheque as cash as well as the possibility that the cheque is credited through other means too. The cheque will either be credited to the customer's account as an overpayment, or will not be processed (due to IPSL not performing cheque deposits on our behalf) and the customer receives the value expected (cheque+cash), but the writer of the cheque will not have the funds withdrawn. Unless the bank can clearly see the cheque clearing in the account alongside the IPSL processed value, they will not perform an overpayment and refund Post Office as the customer has the right funds based on the deposit slip.

In terms of recovering the funds (ie. Where Post Office has paid more money to the bank than the true value of deposits made) an overpayment request will be made to the relevant bank to ask for funds to be returned to Post Office Ltd. There is no guarantee that the funds will be returned as the customer could have removed the money from the account, closed the account, refuse to acknowledge any communications or produce a receipt for the transaction denying that any cash has been refunded. If recovery is not possible, then consideration will be made as to liability. A TC will only be sent if there is clear proof of non-conformance by the branch otherwise the business stands the loss.

8. If a customer discovers that they are missing a deposit value, they will either contact their bank, the branch in question or Post Office Customer Care. Each of these areas will then contact the FSC Personal Banking Team who will commence the process in section 5.

Automated Banking

These are card based transactions (no paying in slips) and are consistent with the standard across the banks. Customers can make deposits and withdrawals.

At the transaction stage there is a three step messaging process between the counter and LINK to confirm that funds are available for a withdrawal (RAC – Request Authorise Confirm). If there is any connectivity issue at this stage then the recovery process would be invoked. Recovery has been explained and documented separately in correspondence with Second Sight.

At the end of each day a reconciliation is done by Fujitsu which compares the sum of individual transactions from the Horizon Branch Database with a daily summary file from LINK. If differences arise between the streams then individual BIMS (Business Incident Management Summaries) are created and each one advises of a "stage" at which the anomaly arose and what actions need to take place as a result.

The BIMS, dependent on the stage and on what the branch did as regards physical cash handling, may lead to an adjustment to the transactional reporting to the client or could lead to a TC.

Where there has been a disruption to the summary reporting to the client, there is no impact on the branch. However, where a branch proceeded to hand cash to a customer on a bank withdrawal but without spotting that there had been a connectivity incident or a conformance error by themselves or the customer meaning that the transaction became cancelled, then a cash shortage could arise in branch. In such a scenario (which can happen on POCA and bank withdrawals), FSC would endeavour to recover the funds from the customer over the phone or by them returning to the branch. However, if the customer disputes what has taken place then the branch may be asked to stand the loss.

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If a TC were issued, that would be a credit TC to clear the cash shortage in branch on the grounds that the "overpayment" had been recovered centrally from the customer.

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These examples support Post Office's general position that Subpostmasters are not disadvantaged by the operation of the Suspense Account if they act in accordance with Post Office's policies and procedures. It is recognised that these are only two examples but as can be seen above, the number of permutations and types of errors is vast. If Second Sight has concerns over the operation of the Suspense Account in relation to specific transactions or circumstances then Post Office will be happy to look into this in more detail.

Suspense Account data

As requested, enclosed with this paper is a spreadsheet showing all amounts taken from the Suspense Account into profit over the last 4 years. The figures in the spreadsheet include both "customer monies" and payments for services as described above. Each line item may represent a single unreconciled transaction or series of unreconciled transactions.

[DATE]