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Complaint Review and Mediation Scheme

A paper prepared by Post Office to assist Second Sight with the finalisation of their Briefing Report– Part Two

Version two

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Introduction

As part of the Initial Complaint Review and Mediation Scheme (the Scheme), Second Sight is engaged as a firm of forensic accountants to provide a logical and fully evidenced opinion on the merits of each Applicant's case.

On 21 August 2014, Second Sight's Briefing Report – Part Two (the Report) was sent as a confidential document to a number of Applicants and their advisors, as well as to Post Office. The purpose of the Report was to describe and expand on common issues identified by Second Sight as being raised by multiple Applicants (a thematic issue). The aim being to provide general information that could then be applied in specific cases.

Post Office has been unable to endorse the Report. It wrote to recipients of the Report immediately after its release setting out its reasons for this, and prepared a Reply which was released on 22 September 2014, detailing its position on the issues raised within the Report.

Further, within Second Sight's Briefing Report – Part Two, several issues were said to require further investigation. With a view to moving the Briefing Report – Part Two to finalisation, the Secretariat offered to assist Second Sight in resolving these matters.

The following paper is written to aid this process, detailing the additional questions posed by Second Sight and the answers provided by Post Office.

Post Office was provided with the questions on 9 December 2014 and committed to provide answers to the questions posed before a meeting with Second Sight on 9 January 2015. In line with the short timetable, Post Office's approach was to identify a subject matter expert within its organisation to, where possible and proportionate, answer each question. Post Office was not therefore able to comprehensively search for information nor canvass views on each question from all parts of its business. The answers provided in version one represented the best information possible given the limited time available but should not have been considered exhaustive.

Note on Version two

Version one of these answers was provided to Second Sight on 7 January 2015 and subsequently discussed at a meeting between Post Office and Second Sight on 9 January 2015.

At this meeting and the face to face Working Group meeting on 14 January 2015, Second Sight clarified its position on a number of the questions. This has allowed Post Office to provide additional answers and information to those included in version one. These are included in version two.

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1. Transaction anomalies associated with CASH or STOCK Remittances (including counterfeit notes)

Post Office is aware that there is an issue of counterfeit notes being circulated within the UK economy in general. This is an issue that affects all businesses and Post Office has in place various policies and procedures in order to detect counterfeit notes and prevent them being circulated within the Post Office's network of branches.

- The large majority of costs / losses associated with counterfeit notes are claimed from other parties (e.g. clients, cash suppliers, etc.) with Post Office branches being held liable for a very small number;
- Where responsibility for allowing counterfeit notes to enter the Post Office network cannot be established, Post Office absorbs the loss itself.

The process used in Post Office can be summarised as follows:

- Once a counterfeit note is identified by Post Office, it is verified by a second person.
- Post Office then determines responsibility for allowing the counterfeit note into the network based on the information included on the Plastic Bank Note Envelope (PBNE), an envelope used to seal the cash as it is moved around the network;
- If a branch is found to have not followed correct procedures, it may be held liable for the loss created by taking a counterfeit note.

1.1. Please provide full details of the following:

- a) All procedures and controls in place to detect and prevent damaged or counterfeit notes being issued to branches as REMs;

The Post Office's Cash Centre is responsible for issuing remittances of cash to branches.

There are four key elements within the Cash Centre that ensure the integrity of notes it sends out to branches:

- Use of High speed note counting machines. Each note is checked for all possible characteristics and any notes that fail to meet the required standard are rejected, either because they fail to meet the Bank of England's note quality standard or because they are counterfeit.
- Daily calibration. Each note counter (there are 7 in use nationwide) are calibrated daily using a standard pack (a test bundle of mixed quality notes) by specialist onsite engineers. This check ensures that the counters will identify counterfeits and non-standard Bank of England notes and that they are removed from circulation. The calibration check exceeds the standard set out by the Bank of England and is subject to regular audit by the Bank.
- The Note Circulation Scheme (NCS). Under the NCS, the Bank of England does not distribute banknotes and instead, wholesale cash operators, including Post Office, sort and distribute notes. Under the NCS, all notes Post Office put into circulation must be integrity checked.

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- b) All procedures and controls in place to detect damaged or counterfeit notes in outward REMs sent from a branch to a cash centre;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- c) All procedures and controls in place that prevent notes included in an outward REM from a branch being sent to another branch as an inward REM without being counted or checked for damaged or counterfeit notes;

All inward remittances from Post Office branches are opened in the Cash Centre before being sent out through the cash cycle again i.e. the notes are checked before being remitted out to branches as per above. There is no process for cash to be sent from branch to branch.

- d) All procedures and controls used to ensure that notes issued as REMS for use in ATMs meet the relevant quality standards;

All cash that leaves the Cash Centre for ATM use is checked to ensure it is counterfeit free and is fit for ATM dispense in line with the Bank of England's note standards. Please refer to the answer provided in 1.1a for further information.

- e) All procedures and controls used in branch to detect counterfeit notes;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- f) The procedures to be followed in branch when a Subpostmaster detects counterfeit notes; and

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help, with seven different scenarios covered. Please refer to Annex 1 for further information.

The seven scenarios covered are as follows:

- Identifying counterfeit banknotes;
- Treatment of counterfeit banknotes;
- Remitting counterfeit banknotes;
- Counterfeit notes found loose in official cash;
- Counterfeit notes returned by a customer;
- Counterfeit notes impounded when presented by customers for a transaction;
- Counterfeit notes found in a deposit prepared by an Alliance & Leicester (now Santander) business depositor.

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- g) Who bears the loss associated with accepting counterfeit notes?

There are detailed procedures documented on Horizon Help to assist the branch in dealing appropriately with counterfeit notes. If the branch follows the correct procedures as detailed on Horizon Help then the branch is not held liable for any associated loss. Please refer to Annex 1 for further information.

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2. Transaction anomalies associated with Pensions and Allowances

One of the issues raised by a small number of Applicants to the Mediation Scheme relates to alleged transaction anomalies which, it has been claimed, are connected to Pensions and Allowances (P&A).

Typically, this has revolved around allegations of re-introduction fraud. This fraud involves P&A vouchers being entered into Horizon twice (known as a "reintroduction"). The fraud occurs where a customer visits a branch to receive a pension payment. First, the customer provides the staff member at the branch with a P&A voucher and receives their pension as cash in return. The staff member then enters the voucher into Horizon in order to account for the cash that has been paid out to the customer. The P&A vouchers are sent on a weekly basis to the Department of Work and Pensions (DWP). The act of entering the same P&A vouchers into Horizon twice is called reintroduction. Where this is done in error, it creates a surplus of cash in the branch. Where reintroductions are frequent and there is no surplus, these are strong indicators that reintroduction fraud is taking place at the branch.

Post Office has previously provided Second Sight with a paper on P&As. Annex 2 supplements the responses provided in this section.

2.1. Please provide full details of the following:

- a) Data mining or similar techniques used to identify branches which have processed unusual volumes of P&A vouchers or have processed previously used P&A vouchers i.e. 'Reintroduction' fraud;

P&A vouchers are no longer used by Post Office – DWP replaced them with the Post Office Card Account. The information below is therefore a historic process about which only limited information is available.

Typically the process may have involved some or all of the following:

- DWP staff in Lisahally used to conduct rota checks of all P&A submissions.
- If they identified a discrepancy in a pouch they would check the previous month to see if this identified a pattern. The Date Stamp indicator would often be used as a method of identifying potential suspects and the method, e.g. over-stamping a voucher with a second date.
- If further discrepancies were found they would then go back as far as possible which was normally no more than 12 months.
- At each stage their check would be corroborated and recorded stating who had carried out the checks and what had been found.
- As this was happening, Post Office (FSC) was advised by the DWP of the discrepancy and, if it was deemed necessary, an investigation may be begun by Post Office.
- Post Office Security would arrange for the branch P&A submissions to be intercepted by Royal Mail.
- These would be manually checked, recorded and retained by the allocated Security Manager.
- Any discrepancies would be scheduled and recorded along with any DWP findings in preparation for attending the branch.
- An audit may be arranged at the branch and the P&A foils on hand would be checked and recorded as live evidence.
- Fujitsu logs may be requested if required to confirm who had made the Horizon entry for the fraudulent transaction.

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- b) All procedures and controls used to detect 'Reintroduction' fraud;

See answer 2.1a and Annex 2.

- c) Any cases in the last 3 years where outgoing P&A vouchers have been stolen or lost in transit;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- d) Who bears the loss associated with lost or stolen P&A vouchers?

See Annex 2.

- e) Any cases in the last 3 years where P&A vouchers have been represented at a branch by a person unconnected with that branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- f) Any cases in the last 3 years where forged P&A vouchers have been presented at a branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

- g) All procedures and controls used to detect forged P&A vouchers;

Please refer to answer 2.1a.

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

A Post Office branch would only be held liable for a loss associated with P&A vouchers if they had been negligent, had not followed correct acceptance and processing procedures or acted fraudulently.

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

At the time of P&A vouchers being used for transactions within Post Office branches, those branches would have been required to validate that the amount they were claiming as being paid out to customers (as shown on Horizon) matched the value of the P&A vouchers on hand.

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3. Transaction anomalies following telecommunication or power failures

Another issue raised by a number of Applicants to the Mediation Scheme was that of alleged transaction anomalies flowing from telecommunication or power failures. Power and telecommunications failures are a risk to any business as branches and Post Office are reliant on third party suppliers for these services. Recognising this risk, Horizon was designed with "recovery" processes in place to correct any issues caused by a power or telecommunications failure. Post Office notes that as yet no evidence has been adduced to show that either of these events will cause losses in branches where the recovery process has been correctly followed by branch staff.

3.1. Please provide full details of the following:

- a) Any tests carried out that ensure that Horizon's screen-based recovery instructions are visible to the person looking at the branch terminal when a power failure or telecommunications failure (or both at the same time) has occurred or is occurring;

The recovery process is shown on the Horizon terminal screen and will therefore, always be visible to branch staff.

- b) The information that needs to be entered by the user to complete the screen-based recovery process;

When the recovery process is carried out, a recovery receipt will always be printed as part of the next log on after the failure and a recovery event will be recorded in the Horizon Event Logs.

Depending upon the stage an individual transaction had reached at the time of the failure, Horizon may ask questions of the Subpostmaster to help decide whether or not that transaction was complete. Annex 3 – 'Transaction Recovery – Horizon Online Reference Guide' – details the questions asked for the different scenarios.

- c) Any tests carried out that ensure that the backup mobile telecommunications facility works effectively in all locations and in all circumstances including busy, multi-position branches;

Branch back up availability is tested once a week on a rolling basis (one seventh of the estate is tested every night).

- d) Any tests carried out when a branch is upgraded to Horizon Online that confirm that a reliable signal is available for the backup mobile telecommunications facility.

Please refer to the answer 3.1c.

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4. Transaction anomalies associated with ATMs

A number of Applicants to the Scheme have raised complaints in relation to alleged transaction anomalies connected with ATMs.

Post Office has previously provided Second Sight with papers in response to their questions involving ATMs. Annexes 4 and 5 supplement the responses provided in this section.

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

Post Office is not aware of any malware attack on its BOI ATM fleet that has resulted in loss to a branch. Hypothetically, if a loss of cash from a branch as a result of a malware attack was detected, that loss would be passed to BOI and not be absorbed by the branch

Details of the technical measures in place to prevent malware attacks have already been provided to Second Sight in Post Office's note on ATMs – see Annex 4.

It is not clear which types of "hardware devices" are being considered by Second Sight. If this relates to cash trapping devices, Post Office has already explained that this type of attack will not cause loss to a branch – see paragraph 7.4 of Annex 4.

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

The Print Totals receipt is only used for managing the ATM cash levels and to allow the Subpostmaster to identify when the ATM needs to be reloaded with cash. As per all transactions/inputs that take place on an ATM, Print Total details are recorded on the ATM's Electronic Journal. However, the information on these receipts is for the local management of the ATM only, is not used as part of daily/weekly ATM accounting and the data is not used outside of the local management of the ATM. This is demonstrated by the fact that the Subpostmaster must zero the totals on the Print Totals receipt when they reload cash into the ATM, which can be done as often as required.

Where some corruption of the rejected notes total occurred there is evidence of erratic and unusual behaviour by the postmaster in the management of hardware (cassettes) and software (Print Totals; balancing activities). For example, many activities were repeated multiple times in a very short space of time. Cassettes were loaded, unloaded, reloaded. Print Total instructions were performed multiple times, sometimes with different cassettes in or out of the ATM, in the space of minutes, and then repeated. In these circumstances it is not surprising that the ATM's logical functions may have been affected. However following the stated operating procedure would allow these totals to be reset without there being any impact on the cash dispense/balancing of the ATM as it is the Bank Totals and the ATM Totals receipts that are required to complete the daily and weekly ATM accounting procedures.

It is the Bank Totals receipt that specifically details the value of cash dispensed by the ATM on a daily basis. The value of cash dispensed is taken from this receipt and recorded through Horizon. This value is tied back to the value of cash that has been dispensed through ATMs for each particular day. In summary, all ATM transactions are confirmed between Bank of Ireland and the Card Schemes, the vast majority of which are processed via LINK, as having successfully taken place. Any discrepancies between LINK and Bank of Ireland's data would be investigated before Post Office would be involved. The total value of ATM cash dispensed is then settled on the next working day between Bank of Ireland and Post Office. This total value is checked by Post Office and matched against the individual

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ATM dispense records. Therefore any discrepancy in the cash dispense figures would therefore be identified as part of the settlement process.

It should be noted that in 2011 a full investigation of ATM cash dispensed figures in relation to M040 was undertaken by Bank of Ireland and Post Office Security. For the month of April 2009 the daily cash dispense figures were compared back to the actual settlement to ensure these were aligned. No discrepancies were found.

In 2012 POL Security also undertook an investigation in relation to M042 that looked into the number of Rejected notes that were reported on the ATM during April 2011. Bank of Ireland provided electronic journal data for the dates in question. While no discrepancies were identified with the daily cash dispense figures reported by the ATM the exceptional high rejected notes figure appears to have resulted from the sequence of actions that took place at the ATM. It was determined that resetting the Print Totals resolved the local issue without any impact on the cash dispense records for the ATM

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

Yes. It is stated in the Post Office Accounting Instructions for Bank of Ireland ATMs that a separate ATM stock unit must be created when the ATM is first installed. The ATM accounting instructions then refer to this separate stock unit throughout, as required.

The use of an ATM stock unit is not monitored separately as it is just one of the mandatory steps to be followed to properly account for the ATM. Post Office monitors the completion of daily cash declarations and weekly balances. Where these processes are not being conducted, this is followed up with the individual branches.

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

This question has already been addressed through correspondence with Second Sight around Suspense Accounts. Please see Annex 6.

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

It is necessary for Subpostmasters to key the data in because the ATM is not connected to Horizon and branches need to know the amount of cash dispensed from the ATM in order to prepare the daily cash declaration.

- 4.6. Please provide full details of the following:

- a) Any investigation in the last 3 years in which a technical fault was discovered with the ATM which produced a shortage when balancing the ATM or a loss on the Horizon ATM stock unit. How was the associated loss dealt with by Horizon?

Post Office does not collate statistics on the numbers of "technical faults" in the ATMs across its entire network. It manages issues with ATMs on a case by case basis.

ATM related enquiries can be raised by branches through a number of routes depending on the circumstances (Contract Managers, Field Support teams, NBSC, FSC, BOI / Wincor, etc.). Only a fraction of those enquiries would relate to "technical faults" – although it is not entirely clear what is meant by this phrase. It should be noted that even where there is a "technical

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fault" this does not mean that cash has been lost or a branch's accounts have been impacted. For example, there could be a mechanical failure that causes the ATM to not vend cash.

If an issue raised by one branch may have an impact in other branches, this will be escalated through the appropriate channels. The escalation route depends on the nature of the issue but this could be through FSC, Post Office's network support teams, Post Office IT or Bank of Ireland.

As a general proposition, a "technical error" in an ATM cannot directly cause an error in the Horizon ATM stock unit as the ATM is not directly connected to Horizon. Should however a "technical fault" occur in an ATM that were to cause a loss to a branch, the branch would not be held liable for that loss unless the branch had failed to follow the correct ATM accounting procedures.

- b) Any escalated investigation in the last 3 years relating to unresolved cash discrepancies involving a branch ATM;

See answer to question 4.6a above.

- c) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor discovered that any of their authorised engineers or representatives had stolen cash from any branch ATM;

There is no record of an authorised engineer or representative (excluding Subpostmasters) of Post Office, Bank of Ireland or Wincor stealing cash from an ATM.

The only incident that Post Office is aware of relates to a Wincor employee in 2013, though at this juncture it remains only an allegation. No branch in the Scheme was affected by these alleged incidents.

- d) Any instance in the last 3 years in which Post Office initially determined that a cash loss was attributed to a Subpostmaster but where it was subsequently found that the Subpostmaster was not responsible for the loss;

As explained to Second Sight previously, Subpostmasters can challenge any cash loss or Transaction Correction in their branch in relation to ATMs. In many circumstances the information needed to determine the cause of a discrepancy is only held by a Subpostmaster.

It is therefore likely that there have been occasions when a Transaction Correction against a Subpostmaster has been challenged and reversed – in accordance with standard operating practice.

- e) The guidance issued to Subpostmasters relating to the '16:30- 16:30 Print Totals Reports' in circumstances where the rear door of the ATM is located in a retail shop or other nonsecure area. Is the Subpostmaster required to close the retail shop when obtaining the '16:30- 16:30 Print Totals Reports' in these circumstances? How does Post Office monitor and enforce this policy?

The Print Totals Report is not required for balancing the ATM and does not have to be printed out on a daily basis as it is only required when additional cash needs to be loaded into the ATM.

As detailed in the Bank of Ireland ATM Operator Manual, this receipt is used to ensure cash is correctly loaded into the ATM (i.e. to ensure the correct number of banknotes is placed into the ATM).

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As the ATM safe/cassettes would need to be accessed at this point, and in accordance with the guidance included in the ATM Operator, Accounting Instructions and Post Office Security Manuals, the premises must be closed to the public at this time.

It should be noted that the Bank Totals receipt (24 hour cash dispensed figures for 16.30 to 16.30) needs to be printed on a daily basis to allow the cash dispensed figures to be entered into Horizon. As only the rear cabinet door to the ATM has to be opened, and not the ATM safe, this receipt can be printed while the branch is open to the public.

Security procedures at branches are part of the compliance audits undertaken at branches. Subpostmasters are asked about the branches security procedures at the compliance audit so Post Office can verify that the correct processes are being followed.

- f) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor became aware of a customer receiving more cash than they were entitled to from an ATM. Please also provide full details of how the resultant cash shortfall was dealt with in the branch's ATM/Horizon balancing process and whether any Subpostmaster was held accountable for losses that were later found to be attributable mechanical problems with an ATM;

This question has already been addressed in Post Office's paper to Second Sight on ATMs which explains the processes used to detect, and protect branches from third party fraud.

In relation to the statistical information sought, see the answer to question 4.6a above.

- g) How Post Office detects and deals with incorrect items reported in the ATM '16:30 - 16:30 Print Totals Reports' in circumstances when the incorrect figures have also been reported electronically to Bank of Ireland. Please also describe the accounting treatment of any loss that occurs in these circumstances;

Post Office does not consider that ATM reports are unreliable. However, if there were an issue with the 1630 report, it would be the same data feeding through to Bank of Ireland. Therefore, if the Subpostmaster accurately keyed in the 1630 data (accurately from the report which, it is being claimed, could be wrong) then the data in Horizon and the data at the Bank would both be the same (and wrong). In that event, Post Office FSC would not identify any issue as the two figures agree with each other.

It would be the Subpostmaster that would be in the position to detect the anomaly. This is because the Subpostmaster is required to do a weekly physical balance of their ATM at intervals, during which (if the 1630 report were wrong) they would find a difference between the physical cash in the machine and the cash that the 1630 data indicates should be in it.

The Subpostmaster would then be able to make a call to the helpline as with any other balancing issue.

There is no unique accounting treatment that would arise in such a situation. Post Office finance systems would include the 1630 data and any enquiries/disputes about that data would be handled in the same way as any other balancing queries.

- h) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor has become aware of any theft relating to an ATM, that was carried out (or suspected of having been carried out) by any person other than a Subpostmaster or a branch employee. Please also describe the accounting treatment of any associated loss.

Please refer to the answer provided to 4.6 c.

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5. Transaction anomalies associated with Lottery Terminal or Scratchcards

A number of Applicants to the Mediation Scheme have complained of alleged transaction anomalies relating to the lottery terminal in their branch or the accounting process for Scratchcards. Post Office has addressed these issues in detail in its investigation reports and in its response to Second Sight's Part 2 Report.

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

There have been no such incidents that Post Office is aware of.

- 5.2. Has Post Office ever issued an instruction that unused Scratchcards must not be collected by Camelot representatives? Please provide full details of the circumstances that gave rise to any such instruction being issued.

Post Office procedures for the return of activated and Unactivated Scratchcards is detailed on Horizon Online Help. The relevant extract is appended at Annex 7.

Further, there are regular Branch Focus updates reminding branches not to give packs to Camelot Representatives. An example of which is appended at Annex 8.

- 5.3. Is it possible for a Camelot representative to activate packs of un-activated cards without the knowledge or approval of the Subpostmaster? How would this unauthorised activation be dealt with on Horizon?

Anyone with access to and knowledge of the Lottery Terminal in a branch (which is often located in the retail side of the premises) would be able to activate cards. Unactivated packs should, however, be held securely by the Subpostmaster and the Lottery Terminal would be expected to be subject to a form of security in branch as it is sited with cash and retail stock. Ultimately, preventing unauthorised access to the Lottery terminal is a Subpostmaster's responsibility.

If an unauthorised activation were made, it would currently lead to a Transaction Acknowledgement (TA) being sent to the branch to "rem" the pack in. Prior to the deployment of TA's, it would have led to a Transaction Correction (TC) being sent to the branch, with the same effect of remming the pack in.

Both of these events (TA or TC) would lead to a message being presented on Horizon to branch staff requiring formal acceptance by the branch. They could in turn be challenged and more evidence asked for by the Branch. The TA or TC could be validated against records from the Lottery Terminal.

- 5.4. Is it true that whenever a claim for a prize is made, in respect of at that point an unactivated Scratchcard; the entire pack from which that card was taken is automatically activated? Please describe the accounting treatment of any Scratchcards that are activated in this manner.

Yes. The subsequent accounting would be the same as noted above in the response to 5.3

- 5.5. Prior to the changes made to Standard operating Procedures in February 2010, and the subsequent implementation of 'Ping' in February 2012, did Post Office find that many branches were making similar mistakes in regard to processing Scratchcards? Please provide full details of the types of mistakes that were routinely being made. Please also provide a schedule showing for each month, how many TCs were issued and of what aggregate value (separating TC Invoices from TC Credits) during the years 2005 - 2011 in respect of Lottery matters?

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

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6. Transaction anomalies associated with Foreign Currency

Post Office is not aware that alleged anomalies connected to foreign currency transactions have been raised by a material number of Applicants to the Mediation Scheme. Second Sight's questions on this subject are answered below however this issue may be better addressed on a case by case basis.

- 6.1. Please provide full details of how the Forde Moneychanger ('FM') system operates. Please explain in detail how FX deals were accounted for and the instructions that were provided to Subpostmasters.

The Forde Moneychanger was used to manage foreign currency transactions and stock in branches before these functions were carried out on Horizon. Each morning, the branch would receive a fax with the daily exchange rates on it and a member of staff would enter each rate into the machine manually. The machines also sent rates to the rate board (which displayed the rates to customers) and, once this was done, a member of staff checked the rate board to verify that the rates were displayed correctly.

All foreign currency transactions were entered individually onto the Forde Moneychanger throughout the week and the machine used a carbonated till roll to provide the customer with a receipt and branches with a copy of all transactions and balances.

Each night a stock report could be run to check the daily totals. Each Wednesday the machine was balanced and the totals were then transferred by a member of staff onto Horizon where the foreign exchange stock would be 'balanced' again. The figures were entered onto Horizon as bulk totals; individual transactions were not entered onto Horizon.

- 6.2. Also, how does the FM system, and Horizon, account for the difference between a transaction carried out at a Special FX rate and the expected Normal FX rate? As an example, if a customer was given €150,000 in exchange for £100,000, whereas the Normal FX rate would have only given him €145,000, how did the FM and Horizon systems account for the €5,000 difference? What flexibility was or is available to Subpostmasters when agreeing to non-standard FX rates?

The Forde Moneychanger machine was a stand-alone piece of equipment used to convert sterling into currencies bought and sold to customers. Print-outs from the machine detailed the value of currencies on hand that the user would validate by way of a physical check. The sterling equivalent of these currencies was then entered into the Horizon system. A revaluation amount was also detailed on the print out and entered into the Horizon system. Providing the amount of foreign currency on hand matched what the system stated should be there, the branch accounts (specifically the foreign currency stock unit) would balance as the revaluation figure accounted for the difference in exchange rates from one accounting period to the next. The actual exchange rate at which currency was sold was irrelevant as this was accommodated in the revaluation figure. So, by the Applicant selling currency at a more favourable rate to the customer and processing this through the Forde Moneychanger machine (i.e. manually altering the rate on the machine) the stock unit accounts would still balance.

A special rate for foreign currency transactions over £2,000.00 could be obtained by contacting First Rate Travel Services by telephone at the time of the transaction. The transaction would then be processed via the FM machine at the special rate.

- 6.3. Allegations have been made about unauthorised access to transaction data by staff located at the Fujitsu office in Bracknell. As previously requested and agreed, please provide the email archives in PST or NSF format for Post Office staff working in Bracknell during 2008.

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request

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7. Transaction anomalies associated with Bank / GIRO / Cheques

- 7.1. We are aware that every night, a data file is sent to every bank into which its customers' have deposited funds, and from which its customers have withdrawn funds. It is then those banks that bear the responsibility to reconcile Post Office's record of what has taken place with their own records of the entries that have been processed each day into their customers' accounts.

This is a statement with no question to answer

- 7.2. It follows that each of those banks is expected by Post Office to take action where (for example due to telecommunications interrupts between a customer's bank and a branch's Horizon system) a customer's account has not been debited or credited by the bank when Post Office's records show that it should have been, or where a customer's account has been debited or credited by the bank when Post Office's records show that it should not have been. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank.

This is a statement with no question to answer

- 7.3. Please provide us with a schedule listing all TC's issued to branches in the last 12 months relating to this type of adjustment.

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

- 7.4. Please provide us with a schedule listing all amounts received back from any bank, in response to that reconciliation process in the last 12 months, clearly describing the accounting treatment of those amounts.

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

- 7.5. We are aware that in some circumstances a customer may benefit from a duplicated transaction. Please provide full details for any such instances that have been occurred in the last 3 years and state whether any Subpostmaster was held accountable (during any period beyond the end of a Trading Period) and required to make good the resultant shortfall.

As described in Post Office's more detailed paper at Annex 11, this scenario does not give rise to any loss to a branch.

- 7.6. We are aware that the November 2008 phasing out of two-part paying-in slips increased the possibility of error or fraud impacting Subpostmasters. Please state what compensating controls were implemented as a result of this process change and describe the consultative process that was used prior to implementation. Please provide details of the anticipated cost savings associated with this process change together with the estimates of increased financial risk i.e. the cost benefit analysis carried out by Post Office.

Issues regarding Girobank deposits that are in scope have already been addressed in the paper at Annex 9, as previously supplied to Second Sight. As described in that paper, the change from paying-in slips to "chip and pin" was driven by the client bank and was beyond Post Office's control. Any cost-benefit analysis would therefore have been undertaken by the client bank and not Post Office.

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- 7.7. Please provide us with a schedule showing the monthly volumes (and the aggregate values) of EN/TC Invoices compared to Credits that were issued to branches, in regard to Giro payments and Girobank Deposits and Withdrawals, in the years 1999 – 2013.

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

- 7.8. We note that cheques not covered by a Cheque Guarantee Card were not an acceptable Method of Payment for certain transactions e.g. the sale of Foreign Currency. Please confirm whether or not Horizon is programmed to reject unacceptable Methods of Payment in these circumstances. Also, if a branch has systematically been accepting cheques in amounts that exceed approved limits, is there a process whereby those repeated errors are detected and corrected?

Horizon can advise on the method of payment, but a clerk can in practice choose to take a cheque instead of cash, for example, but still record the transaction as cash on Horizon. Horizon is programmed to indicate the appropriate methods of payment for products. If card payment is not acceptable then it would not be offered and the card would not be recognised. If cheque is not acceptable then the cheque payment icon would not appear but Post Office cannot control whether a branch chooses to ignore that fact and still take a cheque and process at the point of settling the transaction as a cash payment

Whether or not a cheque was covered by a Cheque Guarantee Card was not the reason behind whether a method of payment was acceptable regardless of whether a guarantee card was presented. Acceptable payment methods were dictated by what range of payment methods Post Office's corporate clients wanted Post Office to offer.

As regards the Cheque Guarantee Card, these no longer exist as they were phased out by banks.

- 7.9. We are aware that in some circumstances Horizon does not record transactions accurately. Specific examples include:

Post Office is not aware of the "circumstances" alleged by Second Sight in this question.

- a) Where, during Horizon's recovery mode processing, some transactions, that were not processed, or were only partially processed, may not be properly corrected when the system invites the counter clerk to correct the errors or omissions and, if the screen instructions to the counter assistant are interrupted (as would be likely to happen where there are telecommunications or power interrupts) then discrepancies may ensue;

The transaction may not be recorded accurately but that is due to how the clerk applies and follows the "recovery instructions" which have been issued to branches (please refer to Annex 10). Whilst it may have been the system that had a connectivity issue, the error in accounting would be due to the user's failure to follow the recovery instructions, not a failure by Horizon to record it accurately. Accounting process is covered by the recovery instructions at Annex 10. The quick reference guide has been provided in response to question 3.1b.

- b) Where misalignment of screen icons results in the inadvertent execution of the wrong type or value of transaction;

There is a screen calibration application which can be invoked at any time by the Subpostmaster from the Engineering menu of Horizon. If the screen is out of calibration then that would affect the whole screen and not individual icons so it would be obvious to the user that the screen had gone out of alignment. If this issue is noticed and a call made to the helpdesk then the subpostmaster or staff member would be asked by the agent to re-calibrate their screen to fix the issue.

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- c) Where Foreign Currency transactions have been incorrectly accounted for through interaction between the Forde Moneychanger System and Horizon (Note: we regard the FM system as a component part of 'Horizon'); and

As described in Section 6, such errors would be the result of user error.

- d) Where system-to-system interface problems result in incomplete transaction processing e.g. where a PINpad, PayStation or other piece of equipment fails to complete its part of a transaction.

If the above scenarios took place, the transaction would simply decline or the customer would be asked for an alternative method of payment. As the transaction would be declined and the branch's accounts thereby left in balance, there is no need for any follow-up accounting process.

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

The accounting procedures for these are conducted in branch and, wherever a particular process is necessary, it has been described above.

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

Post Office has previously explained (via Spot Review 12) to Second Sight that lost cheques cannot be the cause of loss to a branch unless it can be shown that the branch is at fault. As Second Sight accepts this explanation, this request is disproportionate.

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

Products may have limits (e.g. savings may only be up to certain values); it is not the cheque that is limited. There is no high value cheque limit set by Post Office.

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

This is a statement with no question to answer

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

This question has already been addressed by a paper appended at Annex 11 which has already been supplied to Second Sight.

Nevertheless, "One sided transaction" implies incomplete double entry. We would be grateful if Second Sight would cease the inappropriate use of the phrase "One sided transactions".

What the question actually asks about is completeness of record keeping.

If the transaction interruption occurs during the Horizon accounting process, it would be subject to recovery processes, referred to earlier and previously shared with Second Sight.

If the interruption is beyond the branch, the branch accounts are not affected. How banks would then detect their own failure to debit their customer's accounts is a matter of their internal process. From a Post Office point of view, the withdrawals recorded in branch would lead to debits in a central vendor account which Post Office would in turn clear down by payments received from the bank. If the bank had not debited their customer's account then that would likely manifest itself in them not paying Post Office centrally and Post Office would challenge them with evidence of the original transactional record. This is not a situation that would lead to a discrepancy for a Subpostmaster.

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

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

After printing, Horizon explicitly asks the clerk "has this label printed correctly Y/N".

If the label has not printed correctly then the clerk confirms "no" and another label is printed.

Post Office is aware of situations of damage in the printing process and there is a process to "spoil" them so that the branch is not disadvantaged. There is a clear process in Horizon and the branch is required to retain the spoilt label. This is appended at Annex 12.

To be able to claim a label as spoilt, the branch is required to produce to Post Office the spoilt label as evidence.

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

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

Please refer to the answer provided to 7.9b

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

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

This is a statement with no question to answer.

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

Where such allegations have been made by Applicants to the Complaint and Mediation Scheme Post Office has fully investigated the NBSC calls logs as part of its thorough investigation and reported its findings in the Post Office Investigation Report.

In relation to certain transactions, Post Office has in place processes and controls to detect particular errors by branch staff. Where an error is detected, a transaction correction may be sent to a branch to correct a mistake. In these circumstances, it may well be correct for NBSC to advise a branch to await receipt of a transaction correction amongst other steps. Post Office understands that it is this scenario that is being referred to by Second Sight and considers that this advice may be appropriate in the right circumstances.

- 10.3. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to those situations where customers leave parcels and come back some days later to settle their accounts. Specifically, what is Post Office's position in regard to the credit risk that Subpostmasters take, and the potentially 'false accounting' issues that those Subpostmasters risk, when they routinely allow customers (such as eBay Sellers) to drop off large quantities of parcels that are then dispatched by settling the labels to 'Fast Cash' (even though no cash has at that point been received from the customer) and then reversing all those Fast Cash payments to cheque when the customer later pays by cheque?

Post Office does not have a policy of providing credit to customers. Where Subpostmasters have done so, they have contravened Post Office operating instructions which state that at the point the transaction is completed the appropriate method of payment should be taken from the customer.

Therefore, the risk would be the Subpostmaster's in respect of an unsettled payment from the customer.

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11. Training and Support issues including Helpline and Audit

Another issue running through the applications to the Mediation Scheme was the alleged poor quality of training and support provided by Post Office to Subpostmasters.

Second Sight's questions on this topic are dealt with below however Post Office considers that issue relating to training and support are likely to be case specific and does not see how this can be a thematic issue suitable for Second Sight's Part 2 Report.

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

- a) Ensuring that the new Subpostmaster has manager/supervisor-level access rights to the branch's Horizon system;

The Field Support (FSA) team involved in the branch opening process would create the User ID for the incoming Postmaster at the correct (maximum) level of manager. The audit team would:

- Delete any obsolete users from the system and ensure that the incoming Postmaster and any new staff members are added to Horizon in the correct format.
- Check the Horizon User ID's against the list of Registered Assistants.
- Any staff working in the branch that are not registered with HR should be reported via the Anomalies Report that the FSA completes to notify HR so that they can follow up with the Postmaster.
- Inform the Postmaster of the correct process for registering assistants with HR
- Set new alarm codes once the transfer is completed under FSA supervision.
- Add new user(s) to Horizon ensuring that all staff are also listed on the reporting form to HR.

- b) That every employee has a unique User ID and password;

Please refer to answer provided to 11.1a.

- c) Ensuring that every till or employee and ATM is associated with a separate stock unit; and

Some branches operate with just one "shared" stock unit as they don't feel the need to have individual units (this depends on the branch's preference).

ATM's are required to have a dedicated stock unit. This is checked on branch audit. If the branch does not have a separate ATM stock, one is created (instructions on how to do this can be found in the Additional Horizon Procedures on EASE) which stands for 'Engaging and Supporting Effectively' and is the library of tools, official forms and processes from which the Field Team take all of their instructions in the deployment of all types of Field Support Activity.

- d) Ensuring that all branch employees are approved by Post Office;

Please refer to answer provided to 11.1a.

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

“Correcting errors” and “dealing with incoming TCs” are different things. A branch may be seeking to correct an error it has spotted itself well before a TC becomes necessary.

When correcting errors, some Subpostmasters do indeed sometimes make further errors. The controls and process are:

- Through their own vigilance in concluding a transaction they should spot issues;
- Through daily cash declarations and other routine supervision of their branch they should spot errors;
- Having spotted an issue they can use local transaction logs to review and reflect on transactions; and
- If they cannot determine the root cause themselves then they can call the Helpline who in turn may involve FSC. However, for many errors made at the counter by branch staff, there may be limits on what investigative support Post Office is able to provide because it is not aware of what is physically happening in each branch – only a Subpostmaster knows this.

11.3. Please provide full details of the following:

- a) Any surveys or other quality control procedures in order to measure user satisfaction with regard to the NBSC and HSD Helplines;

NBSC performance is measured on the time advisors take to answer the phone, referred to as a “Grade of Service”. The target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (i.e. where the caller hangs up before reaching an advisor). For complaints, NBSC’s target is to resolve 95% of complaints within 10 working days

Further, the Subpostmaster engagement survey also measures satisfaction levels of users of the NBSC – the most recent of which showed that 83% of respondents felt that the support from NBSC was effective.

- b) The extent to which that advice provided by the NBSC and HSD Helplines is monitored and quality checked;

All advisors are coached through a robust quality process called ‘rewarding skills’. This involves the team leader listening into a selection of calls and providing feedback on call handling, customer service and quality of the response.

- c) The extent to which the written reports (call logs) of the NBSC and HSD Helplines are routinely compared to the actual calls and quality checked;

As part of the quality monitoring as outlined in 11.3b, the actual call log is checked to ensure that it has been categorised correctly and relevant details of the call are logged. There are no written reports as all calls are logged onto a robust call logging system.

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- d) Any surveys or quality control techniques used to assess the adequacy of training provided to Subpostmasters; and

Post Office uses the independent external organisation Kendata to collect feedback from all customers of Field Team Activity, including Training, Audit and Intervention activities.

Following these support activities which are supplied by the Field Support Advisors (FSA), across all branch segments in the Network, the FSA will ask the Subpostmaster, Operator in Charge, and all training delegates, if they will complete and return a double sided form to describe their experience in terms of the FSA's performance and the effectiveness of the activity itself.

A form is handed out at every activity as described below:

- At all Audits including Branch Closure Audits;
- Classroom and on-site training (BAU & NT);
- Post Transfer Visits;
- Interventions visits - including Non-Conformance Visits (NCV's) e.g. Mail Segregation / Dangerous Goods / other Non – Compliance/ standards activities.

Exceptions include:

- An audit resulting in Suspension;
- Special Request audits – where fraud is suspected.

Performance Management

All feedback is submitted directly to Kendata, then summarised and sent to the line managers of the Field Team and the individual FSA. The reports are tailored to the different levels of line management on terms of detail ranging from full detail including comments at the FSA and FTL level, up to an overview of performance by teams and activity at Senior Manager level.

Each Field Team Leader (FTL), the first line managers of the FSA's, will discuss the performance of the FSA's at their appraisals unless there are any concerns raised, in which case this is dealt with as soon as the reports are received. If further information is needed to hold an effective discussion, the FTL will call and speak to the person providing the feedback, wherever possible, to further understand the issues.

The FSA performance, and the FTL's team performance is discussed monthly as part of their appraisal with the Regional Manager.

The feedback received on the activity itself is used alongside other information gathered by the Lead Team to drive and inform change and improvements to the Field Team support offer.

Examples of the forms used are appended at Annexes 13, 14 and 15.

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

This is a duplicate of question 11.3d.

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11.4. Process issues at the end of each Trading Period

This question is not understood.

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

Branch trading dates are communicated to branches annually through Branch Focus (the branch newsletter) and are also updated on Horizon online help. If a revision was needed during the year the same process would be followed.

If a branch wished to request permission to extend their trading period they should contact NBSC. This would only be permitted in highly exceptional circumstances. NBSC would contact the FSC Relationship Manager who may consult with the Network Contract Manager. The formal response could come from any of the three parties, depending on the circumstances.

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

- a) Larger than they could 'centrally settle'; or

The upper limit on being able to 'centrally settle' is £999,999.99. Should such an incident occur, Post Office would manage by exception.

- b) Only discovered after the Helpline had closed for the evening.

They could delay closing the Trading Period until the next morning – they could then contact NBSC before opening the following day. However, well run branches would be unlikely to have last minute surprises like that, because it would have become evident during other daily cash declaration processes and checks during the preceding weeks. Last minute surprises usually reflect poor planning / management by a Subpostmaster.

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

Please refer to the answer provided to Q 11.6a.

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

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

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

This is answered in Section 9 of Second Sight's Part 1 Briefing.

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12. The contract between the Post Office and Subpostmasters

Some Applicants have made complaints in relation to the contract between them and Post Office. Second Sight's questions arising out of these complaints are answered below.

12.1. Please provide full details of the following:

- a) Any insurance coverage Post Office has ever offered to arrange for its Subpostmasters;

Though this question is out of scope, it is a function performed by the National Federation of Subpostmasters. Discounted insurance rates have been offered to Subpostmasters by the National Federation of Subpostmasters and it is their decision whether or not they opt in

- b) The measures Post Office takes in order to reduce the risk that incoming Subpostmasters, who take over an existing branch and its staff, may be inheriting employees who have been found to be, or are suspected of having been, incompetent or dishonest. In this context, was there, or is there now, any competency and integrity verification, performance appraisal, or formal disciplinary/warning process whereby outgoing Subpostmasters and Post Office's own Line Managers could warn incoming Subpostmasters where questions had been raised?

Staff members/Subpostmasters' assistants are employees of the Subpostmaster and not Post Office Ltd. It is the Subpostmaster who performance manages the staff members including any disciplinary action as appropriate. It is also a Subpostmaster who needs to assure themselves that any assistants are suitable for the role by conducting interviews, seeking references, etc.

When a Subpostmaster recruits a new member of staff there are a number of checks that have to be undertaken (e.g. right to work in the UK, proof of identity and proof of address along with their five year work history).

In addition, the individual must be registered with Post Office Ltd so the security checks can be undertaken (e.g. criminal record check). There is an annual check of all assistants to ensure they have been cleared through the pre-employment checking system. A recruitment file has to be established and maintained holding the basic paperwork for each assistant (please see section 15 of the Subpostmaster contract for services, paragraph 4, for further information).

Under their contract for services with Post Office, every Subpostmaster must establish, maintain and adhere to a formal disciplinary policy in respect of any assistants who fail to comply with the Subpostmaster obligations as detailed in the contract. The disciplinary policy must include the content as defined in the contract and records must be retained (please see Section 15, paragraph 9, of the Subpostmaster contract for services paragraph 9 for further information).

- c) The measures Post Office takes in order to satisfy itself that potential Subpostmasters have the necessary skills to meet the challenging requirement of being a Subpostmaster?

This is undertaken through:

- a) The provision of a business plan to support an individual's application; and
b) A competency based interview of the individual which is undertaken by trained assessors.

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At interview, applicants are assessed on their ability to explain their business proposition, answer any questions raised and provide examples to demonstrate their understanding of what is required across a number of competency areas. The business plan is also assessed financially by the Finance team.

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

The contract document is issued with the offer of appointment when an individual is advised they have been successful at interview. This has been the process since 2001.

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

Post Office has stated on a number of occasions that matters relating to the Subpostmaster contract are out of scope and that, as this is a legal question, it is outside of Second Sight's area of expertise.

However, in the interests of providing Second Sight with as much information as possible, Post Office's position is that this question concerns the formation and enforceability of contracts, the response to which will be informed by the particular circumstances of each individual contract and their application to the relevant legal principles. Though it is not therefore capable of giving rise to a general response it is worth noting that the "Acknowledgment of Appointment" document, whilst not the main contract itself, states that the Subpostmaster has been given and has accepted the terms of the standard Subpostmaster's contract.

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

A franchise agreement is a private contract between two (or more) parties recording the basis on which they agree to do business in their particular circumstances. The SPMR Contract is similar in that it records the basis on which Post Office and Subpostmasters do business.

Enclosed at Annex 17 is an extract from the Encyclopaedia of Forms and Precedents. This is a leading legal text providing precedent agreements for various situations. The extract is Form 18 from Vol 16(4) and is a precedent for a "Non-Exclusive franchise agreement for a retail business".

As can be seen from the Precedent, the terms of a standardised franchising arrangement are broadly similar to the terms of the standard Subpostmaster Contract. There are obviously some differences between the two as the Subpostmaster Contract is tailored to Post Office's business whereas the Precedent is generic however the core principles are largely the same - for example (number references are to clauses in the Precedent):

- **Premises** (4 and 9): Both Franchisee and SPMR are both responsible for leasing the premises and ensuring that it is appropriate to operate the business.
- **Setup costs** (10.1.2): The Franchisee must pay for the initial fit out and equipment costs if provided by the Franchisor. Post Office also requires this payment in some, but more limited, circumstances.
- **Training**: Franchisor / Post Office to provide initial training to the franchisee / SPMR (5.1.1) and the Franchisee/ SPMR is required to train their own staff (9.2.11)

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- **Employees** (9.3.5): The Franchisee / Subpostmaster is responsible for employing suitable staff.
- **Equipment / Software:** The Franchisee / Subpostmaster is required to record all sales and other financial information using the equipment and software provided by the Franchisor (9.2.23 and 10.9).
- **Telephone lines** (9.2.22): The Franchisee / Subpostmaster must provide the communications line for the EPOS systems and credit card machines.
- **Advice** (6.2): At the Franchisor's discretion, it may provide advice to a Franchisee on how to operate the Franchisee's business – this reflects Post Office's approach to providing advice through its helplines.
- **Problem support** (6.3): Any support provided by the Franchisor to the Franchisee to help resolve problems will be at the Franchisee's cost. There is a slight difference here in that although Post Office's additional support is voluntary, it is provided at nil cost to Subpostmasters.
- **Changes in business** (9.2.2): Both Franchisor and Post Office can change its business model and products for sale.
- **Information / Accounts** (9.3.8 and 10.9) – the Franchisee is responsible for the accuracy of all reports, information and accounts.
- **Audit** (9.2.13 / 13): Both Franchisor and Post Office have a right, but not a requirement, to audit the Franchisee / Subpostmaster. Audit is described in the Precedent (13.1) as an inspection of the business and books – not a full accountancy audit. This is in line with Post Office's use of the word "audit".
- **Responsibility for accounting errors** (13.2) – Franchisee must "*promptly rectify*" any accounting error – again this is very similar to the wording the SPMR Contract.
- **Liability:** The Franchisee is required to indemnify the Franchisor for any loss resulting (i) a failure to follow the business operating practices (9.3.7.3) or (ii) "*any deliberate or negligent act, error or omissions by you or your employees*" (9.3.7.4) - this is almost identical to the SPMR Contract wording.

In any event, the terms of the Subpostmaster Contract are the terms on which Applicants agreed to do business with Post Office. It is the relationship described in those terms that must be applied when assessing Post Office's and a Subpostmaster's actions. It is not open to anyone to look to retrospectively impose new duties on Post Office that did not previously exist. For this reason, Post Office maintains that challenges to the Subpostmaster Contract are outside the scope of the Scheme, which was to focus on Horizon and associated issues. Such an evaluation is also beyond Second Sight's expertise as they are accountants and not lawyers

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

It is open to all Subpostmasters to seek legal advice at any time and Post Office does not block this in any way.

The reference to the BFA standards is not applicable here. The BFA recommendation is directed to franchisees (in a similar position to Subpostmasters). The BFA does not make a recommendation franchisors (in a similar position to Post Office) to require on legal advice being taken by franchisees.

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

These are very serious, but wholly unsubstantiated allegations that Post Office denies and has not seen evidence or been provided with evidence to support these allegations. Further, it was as agreed at the Working Group meeting on 15 January that this request for information is too wide.

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

See answer provided to 12.5.

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

See answer provided to 12.5.

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

Subpostmaster write off levels are documented. Please see a copy of the write-off process for agency branches appended at Annex 16.

Losses from Crown Offices form part of the individual Crown Office's P&L and ultimately Post Office's P&L.

Though reports have been issued to Crown RSMs on levels of losses, it is not a case of authority levels. Tolerance is set at individual level. As a general rule an 'escalation' investigation is initiated after three losses of in excess of £30, although there are variations to this depending on local and individual circumstances. Branch Managers also implement a series of surprise checks on stock units and separately carry out supervisory misbalance checks when a stock unit is showing £30 or more loss on two consecutive daily cash declarations.

Discrepancies can also be identified at the end of each trading period where the Branch Manager undertakes a full cash and stock reconciliation. An 'escalation' investigation can be initiated as a result of errors found as part of that process.

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Crown Offices discrepancies are rectified using the same Transaction Correction (TC) process as is used in Subpostoffices. TCs are sent to the Branch Manager who is responsible for accepting or querying the TCs based on the evidence in branch. This process could also identify discrepancies which could result in initiation of an 'escalation' investigation.

Depending on the circumstances, actions against an individual member of staff in cases of persistent negligence or wrongdoing can include disciplinary action, dismissal and prosecution.

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

Recovery of losses caused by theft by branch assistants is a matter for Subpostmasters as the assistants are their employees. Post Office may help, as a matter of goodwill, but there is no policy in this regard.

Confidential

13. Post Office Investigations Function

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

This question is very broad in scope - it could be interpreted to apply to the whole of Post Office's business and not just those issues under review in the Scheme. Through further discussions with Second Sight, Post Office now understands that Second Sight is looking for criticisms of Post Office's security investigation team and not criticisms of other parts of Post Office's business nor its legal / prosecutions practices.

Although this greater clarity is welcomed, the question still remains premised on an assumption that there is an issue with Post Office's investigation function that would give rise to criticism. To date, no such issue has been identified by Second Sight. This enquiry also needs to be placed in context. Post Office, like all large organisations, is regularly involved in legal processes. It also only separated from the Royal Mail Group in April 2012, prior to which investigation functions were shared across both businesses. There is therefore no single source for the information that Second Sight is seeking.

Against this background, those individuals currently responsible for the security team and legal proceedings at Post Office have confirmed that they are not personally aware of any criticism in a written Court judgment or ruling of the nature described above. For the sake of clarity, no review of historic judgments involving Post Office has been undertaken in reaching these views— such judgments are in any event a matter of public record and could therefore be reviewed by Second Sight.

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

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of calls to NBSC and HSD from a network of almost 12,000 branches. This request is clearly disproportionate.

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

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of data from a network of almost 12,000 branches. This request is clearly disproportionate.

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

This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.

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

Post Office constantly receives feedback on Horizon from its tens of thousands of users through a variety of sources.

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The primary sources are the NBSC, Horizon Service Desk, Branch User Forum and NFSP. Feedback is also delivered through a variety of BAU processes, for example, from contact with the Finance Service Centre, and through discussion in the field with Contract Advisors and Field Support Agents.

That feedback is then implemented through regular system reviews and upgrades implemented by both POL and Fujitsu, and in product development (e.g. to streamline the processes for transacting a new product).

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

Post Office does not hold this information

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

In light of the discussions had with Second Sight and clarifications given, Post Office is investigating to see if it is able to provide the requested information.

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

Second Sight has clarified that it is not seeking an exhaustive list of all the changes described above; rather it is seeking a summary of the key changes over this period and brief description of each change. This information is provided below.

- **MoneyGram Automation** – Quotes and financials are now provided directly into Horizon rather than the clerk telephoning and transcribing the rate / amounts.
- **Broadband Sign Up** – Addressing the issue of “slamming”(an illegal telecommunications practice, in which a subscriber's telephone service is changed without their knowledge or consent) accusations by onscreen “Read to customer...” messages, and key terms being printed on the signed receipt.
- **Bureau Pre-Order** – Order lifecycle is now managed through Horizon to ensure payment is taken at the point of order, and issuance is to the correct customer.
- **Care Quality Commission / Disclosure and Barring Service (DBS) Identity Checking** – There is now automated customer identity verification to ensure key data attribute checks are performed and the correct fee taken.
- **Motor Vehicle Licenses (MVL)** – Stock lifecycle is now automated to track all MVL stock from the point it leaves the warehouse to issuance or destruction.
- **Post Office Card Account (POCA) Card Issuance** – Automation is now in place in terms of the issuance of new and replacement card stock to customers.
- **Regulatory Compliance Training** – The model has been simplified to allow tests to be rolled out at reduced cost with full auditability based on Horizon user log on.
- **Rod Fishing Licence** – The licence issuance process is now automated for both short term and annual licences; removing the paper licence from branch.

Confidential

- **Camelot Cheques** – The cheque issuance process is now automated for large prizes.
- **Stock Ordering** – The creation of an online ordering process through Horizon has removed the need to fax / post order cards; product codes and allowable order volumes are now automated to ensure branches received the correct stock.
- **Travel Insurance** – Price look up for policies is now automated, these were previously keyed manually from the brochure look up tables.
- **Horizon Recovery** – Online transactions with 3rd parties (e.g. MoneyGram) are recovered in the event of, for example, a temporary loss of power or telecommunications to ensure synchronisation of branch, PO datacentre, and 3rd party systems. The situation before the change was that the branch had to remember what transaction they were in when the power/comms went down, and then contact the service provider directly to find out if the transaction had completed.
- **Bureau 2nd receipt** – The production of a duplicate session receipt (necessary for Bank security checks) is now automated, previously the clerk had to remember to print it manually.
- **Lottery TA (PING)** – Lottery sales figures are now incorporated into the Transaction Acknowledgement (PING) process. The branch confirms the system reported figure for the previous days sales when logging in the next morning.
- **Spoilt Postage Labels** – There is a revised process for spoilt postage labels to ensure labels are correctly accounted for and VAT automatically reversed correctly, where applicable.
- **Display of long addresses in postcode lookup** – Screen display has been revised to allow long postal addresses to be displayed on two lines. This has resolved an issue of postcodes not appearing.
- **(pending) Cheque Rem out** – There are plans in place to implement a revised process to bring all elements of the cheque Rem out and despatch onto a single screen, with automation of cheque totals entry, and printing of despatch slip. (expected May 2015)

Confidential

14. Surpluses

- 14.1. Please provide full details as to how Post Office trackssurpluses and shortfalls at the end of Trading Periods at both branch level and in aggregate.

This data is not collated by Post Office but at an individual branch level it can usually be reconstructed from the branch's Horizon logs so long as the branch has accurately conducted its end of branch trading processes.

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

No (except for in connected Core and Outreach branches where remittances of cash between the branches are not correctly recorded by branch staff).

Confidential

15. Suspense Accounts

Post Office has already addressed Second Sight's questions on its Suspense Accounts in its Suspense Accounts paper. This paper demonstrated that so long as a branch follows Post Office's standard operating practices, it cannot suffer a loss due to the operation of a Suspense Account.

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

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

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

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

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

- a) Full transaction details;

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

- b) Originator's reference;

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

- c) Any comments or notes associated with the transaction; and

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

- d) Full account details of the account the transaction relates to or is being transferred to.

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request.

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

Where Post Office receives client reports, these are part of matching accounts, where Horizon data is matched to the client data. Therefore, if the client report was wrong, it should lead to a difference compared to the Branch data. Post Office would then investigate that difference. If a wrong approach were made to a branch, the branch themselves could, in turn, challenge it.

Annex 1

Methods of Payment**Cash Handling**

ch_index v1.0

Introduction

This section deals with the procedures relating to accepting cash (notes & coin) as a method of payment for products and services in all Post Office branches.

It provides general details about banknotes and Plastic Banknote Envelopes (PBNEs)/banded notes that you need to know in order to accept cash as payment, explains in detail the treatment of mutilated, contaminated or dyestained, and counterfeit banknotes. It also includes the procedures to be followed to ensure that Post Office Ltd meets its regulatory obligations to comply with Anti Money Laundering legislation.

A subsection has also been added about various types of discrepancy, including how to deal with alleged discrepancies in customer payments at the counter.

F1	General information	Money Laundering	F5
F2	Damaged or mutilated banknotes		F6
F3	Contaminated/dye-stained banknotes		F7
F4	Counterfeit banknotes		F8
Topic Home ←	Next Topic →		Search T1

Methods of Payment**Cash Handling / Counterfeit banknotes**

ch_05 v1.0

Introduction

Counterfeit banknotes must always be withdrawn from circulation.

The Counterfeit Notes or Discrepancies Found in Banknote Envelopes form P6005 is now used to claim all note shortages caused by counterfeits, both those found in loose cash or in cash Remittances in Post Office branches or those returned by customers who were paid them in transactions.

You should use the section on the form appropriate for the type of discrepancy you have found, as detailed below and remit the counterfeit banknotes on the Horizon Online™ system if appropriate.

F1	Identifying counterfeit banknotes	Counterfeit notes returned by a customer	F5
F2	Treatment of counterfeit banknotes	Counterfeit notes impounded when presented by customers for a transaction	F6
F3	Remitting counterfeit banknotes	Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor	F7
F4	Counterfeit notes found loose in official cash		F8
Topic Home ←	Next Topic →		Search T1

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 2)

ch_05_01 v1.0

Identifying counterfeit banknotes

The most reliable method of identifying a counterfeit banknote is to compare it with a note of the same type which is known to be genuine.

However, genuine banknotes issued by all Sterling banknote issuers (except Danske Bank and Ulster Bank) have a security thread embedded in the note.

In addition, all banknotes have the following key security features which should be checked:

The feel of the paper

A note in reasonable condition

- should be crisp
- should not be limp, waxy or shiny
- should have heavily printed areas which feel raised and rough to the touch.

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 2)

ch_05_01a v1.0

Identifying counterfeit banknotes

The quality of the printing

The printed condition of banknotes should always adhere to the following standards:

- lines should be sharp and well defined with no blurred edges
- colours should be clear and distinct

The watermark

The watermark on a banknote:

- should be barely apparent until held up to the light
- should become clearly defined when held up to the light

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 5)

ch_05_02 v1.0

Treatment of counterfeit banknotes

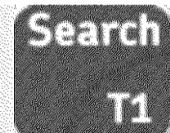
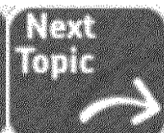
It is illegal to knowingly pass on a counterfeit banknote. After checking a banknote to determine whether it is genuine, any that you suspect to be counterfeit must be impounded. Under no circumstances should a suspected counterfeit note be returned to the customer.

When you impound a banknote that you suspect to be counterfeit:

- Place the note in a polythene banknote envelope and mark the envelope 'Forged' or 'Counterfeit'

All instances of counterfeit notes must be recorded on the Counterfeit Notes or Discrepancies Found in Banknote Envelopes form P6005.

In all situations when a counterfeit note has been found, you must complete the top section of the form. You will also need to obtain an incident reference number from the NBSC which must be recorded at the top.



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 5)

ch_05_02a v1.0

Treatment of counterfeit banknotes

- | | |
|--|---------------|
| 1 - Top section - this must be completed in all cases of counterfeit notes | |
| 2 - Reference number - this must be obtained in all cases of counterfeit notes | from the NBSC |
| 3 - To be completed if the counterfeit note was found in loose cash in your branch | |
| 4 - To be completed if the counterfeit note was paid to a customer in your branch and you exchange it for a genuine note | |

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES													
Instructions are included on the reverse of this form.													
1	<p>GENERAL</p> <p>Office name.....</p> <p>FAD code <table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table></p> <p>SARAFI Unit Code <table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table></p> <p>Counterfeit note(s) value.....</p> <p>Number of notes.....</p> <p>COUNTERFEIT NOTE REPORT</p> <p>(Tick one box and fill in the relevant details below; completion instructions are on the reverse).</p> <p>1. Counterfeit note(s) found loose in official cash <input type="checkbox"/></p> <p>Discovered by (signature).....</p> <p>Checked by (signature).....</p> <p>2. Counterfeit note(s) returned by a customer and exchanged <input type="checkbox"/></p> <p>Name, address and telephone number of customer returning a counterfeit note receipt:</p> <div style="border: 1px solid black; padding: 5px;"> <p>Name.....</p> <p>Address.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>Telephone no.</p> </div>												
2	Incident reference number..... (Telephone the Network Business Support Centre, NBSC)												
3													
4													

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 3 of 5)

ch_05_02b v1.0

Treatment of counterfeit banknotes

- 1 - To be completed if you have impounded the counterfeit note when a customer presented it as payment at the counter
- 2 - To be completed if you found the counterfeit note in a PBNE in your Cash Remittance

The form is titled "DISCREPANCY FOUND IN BANK NOTE ENVELOPE REPORT". It contains two main sections, 3 and 4, which are highlighted with numbered arrows (1 and 2) on the left side of the form.

Section 3: Impounded counterfeit note(s)

Description of customer returning or tendering the impounded note(s) _____

Impounded by (signature) _____

Section 4: Discrepancy found in bank note envelope

Received from _____ Date received _____

Date opened _____ Shortage/surplus* _____

*delete as applicable

Cash Centre reference number _____

Opened by (signature) _____

Witnessed by (signature) _____

Page 05

The sections of the form that you will need to complete **in addition to** the top section and the incident reference number, which you must obtain from the NBSC, will depend upon the circumstances in which the discovery of the counterfeit note occurred. The instructions in each case are mandatory and must be carefully followed.

Methods of Payment**Cash Handling / Counterfeit banknotes (Page 4 of 5)**

ch_05_02c v1.0

Treatment of counterfeit banknotes

If a counterfeit note is discovered in official cash (ie you cannot establish where it originally came from), you must complete section 1 and tick the corresponding box (see link).

Counterfeit
Notes Found
Loose in Cash



If a counterfeit note is found by a customer, you must deal with the note according to the individual circumstances of the case. Notes that are given to customers that are found to be counterfeit at the time of the transaction should be exchanged for genuine notes. When a customer returns with a counterfeit banknote that they claim they were paid in an earlier transaction, you should try to discover, if possible, if the customer's claim is genuine, by checking details of their transaction.

Unless you are convinced the claim is false, you should exchange the note and complete section 2 of the P6005, and tick the corresponding box (see link).

Counterfeit
Notes returned
by Customer



Topic
Home



Next
Topic



Page
Up

Page
Down

Search

T1

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 5 of 5)

ch_05_02d v1.0

Treatment of counterfeit banknotes

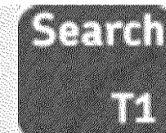
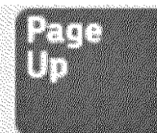
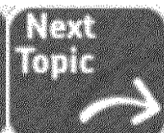
If a customer presents a counterfeit note as payment during a transaction at the counter (this includes 'loose' Alliance & Leicester cash deposits), you must impound the note and issue the customer a receipt.

In this case you complete section 3 of the P6005 and input the customer's name, address and telephone number in section 2 (see link).

Customer
Notes
Impounded



When a counterfeit note is found in a Plastic Banknote Envelope (PBNE)/banded notes as part of your Cash Remittance, you must complete section 4 of the form and tick the corresponding box.



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 1)

ch_05_03 v1.0

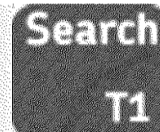
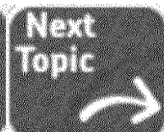
Remitting counterfeit banknotes

In all cases you must remit the counterfeit banknote to your Cash Centre, unless it has been collected by the Police, when you should send a receipt signed by the Police instead.

When a counterfeit banknote is found in a PBNE deposited by an Alliance & Leicester customer, you should contact your Cash Centre and ask them to communicate with the customer or Alliance & Leicester direct.

In this case you claim for the value of the note in the normal way but ask your Cash Centre to give you a reference to enter in section 4 of the P6005 (see link).

Counterfeit
Notes Via
A&L Depositor



Methods of Payment**Cash Handling / Counterfeit banknotes (Page 1 of 2)**

ch_05_04 v1.0

Counterfeit notes found loose in official cash

If you discover a counterfeit banknote or notes amongst official cash in your branch (ie. the original source of the note cannot be identified):

- Telephone the Network Business Support Centre (NBSC) to obtain an incident reference number
- Complete section 1 of form P6005 and tick the corresponding box

- 1 - The signature of the person who discovered the counterfeit note(s)
- 2 - The signature of the witness (if applicable)

1. Counterfeit notes found loose in official cash

Discovered by (signature) *Daisy Cox*

Checked by (signature) *Gary Parlour*

☒

- Input the general details (including the incident reference number supplied by the NBSC) at the top of the form

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 2)

ch_05_04a v1.0

Counterfeit notes found loose in official cash

- 1 - The name of your branch
- 2 - Your branch code
- 3 - The NBSC incident reference number
- 4 - The number of counterfeit notes
- 5 - The value of counterfeit notes

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES
Instructions are included on the reverse of this form.

GENERAL

Office name: PHADDOING LANE 80

FAD code: 037999X

SAPADS Plant Code:

Counterfeit note(s) value: £20

Number of notes: 1

Incident reference number: H10935548
(Telephone the Network Business Support Centre, NBSC)

COUNTERFEIT NOTE REPORT
(Tick one box and fill in the relevant details below: completion instructions are on the reverse).

Callout 1 points to Office name.
Callout 2 points to FAD code.
Callout 3 points to Incident reference number.
Callout 4 points to Number of notes.
Callout 5 points to Counterfeit note(s) value.

- Remit the counterfeit banknote(s) as unusable banknotes on the Horizon Online™ System.

Inputting Cash
Remittance
Out



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 7)

ch_05_05 v1.0

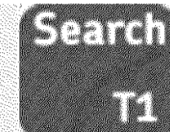
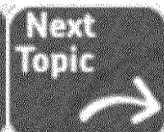
Counterfeit notes returned by a customer

At the time of the transaction

If the customer complains at the time of the transaction that they have been paid with a counterfeit banknote:

- Check whether the banknote appears counterfeit (see link)
- If appropriate, exchange it for a genuine banknote.

Identifying
Counterfeit
Banknotes



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 7)

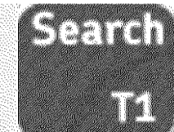
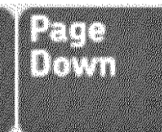
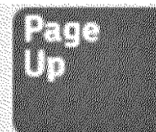
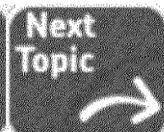
ch_05_05a v1.0

Counterfeit notes returned by a customer

After the transaction

If a customer leaves the counter but subsequently returns with a counterfeit banknote (or an official headed stationery receipt from a retailer or banking organisation because a banknote has been impounded by them):

- Check the banknote/official receipt
- Make a note of:
 - the customer's name and address
 - their telephone number
 - their description
- Advise the customer that you will need to check local records before you can make a compensating payment
- If possible, check whether payment has recently been made (eg. for a Pension or Allowance).



Methods of Payment**Cash Handling / Counterfeit banknotes (Page 3 of 7)**

ch_05_05b v1.0

Counterfeit notes returned by a customer**After the transaction**

If you believe the customer's claim is genuine:

- Complete section 2 of the form P6005 and tick the corresponding box
- Please ensure that you obtain the customer's full name and address, and telephone number

2. Counterfeit note(s) returned by a customer and exchanged <input checked="" type="checkbox"/>							
Name, address and telephone number of customer returning a counterfeit note/ receipt:	<table border="1"><tr><td>Name</td><td>KEVIN THOMPSON</td></tr><tr><td>Address</td><td>42 BROADWATER AVENUE FINDHAM ESSEX R.P6 2FS</td></tr><tr><td>Telephone no.</td><td>0908 632 5554</td></tr></table>	Name	KEVIN THOMPSON	Address	42 BROADWATER AVENUE FINDHAM ESSEX R.P6 2FS	Telephone no.	0908 632 5554
Name	KEVIN THOMPSON						
Address	42 BROADWATER AVENUE FINDHAM ESSEX R.P6 2FS						
Telephone no.	0908 632 5554						
3. Impounded counterfeit note(s) <input type="checkbox"/>							
Description of customer returning or tendering the impounded note(s)	<table border="1"><tr><td>Height</td><td>Age</td></tr></table>	Height	Age				
Height	Age						

- Advise the customer that you need to consult your helpline before the note(s) can be exchanged
- Telephone the NBSC to obtain an incident reference number

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 4 of 7)

ch_05_05c v1.0

Counterfeit notes returned by a customer

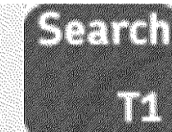
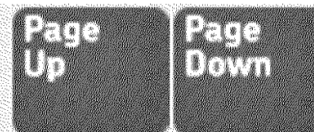
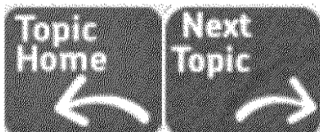
After the transaction

If you believe the customer's claim is genuine:

- Input the incident reference number given by the NBSC at the top of the form with other general details

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES	
Instructions are included on the reverse of this form.	
GENERAL	
Office name <i>Much Hadham Post Office</i>	Incident reference number <i>H19924386</i>
FAD code <i>077052X</i>	(Telephone the Network Business Support Centre, NBSC)
SAPADS Plant Code <i> </i>	
Counterfeit note(s) value <i>£20</i>	
Number of notes <i>7</i>	

- Exchange the counterfeit banknote/official receipt for a genuine one (but only if you have been given an incident reference number by the NBSC)
- Remit the counterfeit banknote(s) as unusable banknotes on the Horizon Online™ System .

Inputting Cash
Remittance
Out

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 5 of 7)

ch_05_05d v1.0

Counterfeit notes returned by a customer

After the transaction

If you do not believe the customer's claim is genuine:

- Try to impound the banknote, if possible.

If the customer refuses to hand over the note:

- Advise the customer to report the counterfeit note to the Police.

If the customer is dissatisfied with this advice:

- Ask them to call the customer helpline on

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 6 of 7)

ch_05_05e v1.0

Counterfeit notes returned by a customer

After the transaction

If you do not believe the customer's claim is genuine:

If you manage to impound the note:

- Complete section 3 of the Counterfeit Notes or Discrepancies Found in Banknote Envelopes form P6005 and tick the corresponding box

Telephone no.	
<input checked="" type="checkbox"/>	
3. Impounded counterfeit note(s)	
Description of customer returning or tendering the impounded note(s)	
Impounded by (signature): <i>Sanjit Shah</i>	
Height <i>APPROX 6ft</i>	Age <i>APPROX 40</i>
Sex: <i>MF</i> <i>M</i>	Nationality <i>WHITE EUROPEAN</i>
Hair colour: <i>DARK</i>	Eye colour: <i>BLUE/GREY</i>
Clothing: <i>LEATHER JACKET, TEE SHIRT, JEANS</i>	

- Issue the customer with a Miscellaneous Receipt P1091 in exchange for the banknote (ensure that you input the value of the note and the serial number on the receipt)
- Call the NBSC to obtain an incident reference number

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 7 of 7)

ch_05_05f v1.0

Counterfeit notes returned by a customer

After the transaction

If you do not believe the customer's claim is genuine:

- Input the incident reference number given by the NBSC at the top of the form with the other general details

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES	
Instructions are included on the reverse of this form.	
GENERAL	
Office name: INKPEN LANE POST OFFICE	Incident reference number: H16782245
FAD code: 097325X	(Telephone the Network Business Support Centre, NBSC)
SAPADS Plan Code: □ □ □ □	
Counterfeit note(s) value: £50	
Number of notes: 1	
COUNTERFEIT NOTE REPORT	
(Tick one box and fill in the relevant details below: completion instructions are on the reverse).	

- Report the counterfeit note to the Police and ask them to collect it
- When the Police call to collect the note, ask them to supply an official receipt in exchange
- Keep the copy of the form P6005 and the Police receipt in your branch for one year in case of further enquiries.

Please note: If the Police do not collect the note or refuse to supply a receipt, you should send the counterfeit note and the form P6005 to your Cash Centre. You must not claim for the value of the note or remit the value of the note on the Horizon Online™ system as you are not exchanging it for a good one.

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 5)

ch_05_06 v1.0

Counterfeit notes impounded when presented by customers for a transaction

Transactions where you believe that the customer knows the banknote is counterfeit

If a customer pays you a banknote in a counter transaction for products or services and you suspect it to be counterfeit:

- Issue a Miscellaneous Receipt P1091 in exchange for the banknote and include the customer's name and address with the details on the receipt
- Keep a personal note of the customer's description
- Advise the customer that the banknote will be handed to the Police
- Report the incident to the Police by telephone and arrange for the suspect banknote to be collected
- Hand the impounded banknote, with any further details available, to the Police
- Ensure that you obtain a Police receipt (or Miscellaneous Receipt P1091 stamped/endorsed by the Police) in exchange for the note
- Keep the receipt in your branch for 12 months before destroying it.

POST OFFICE

Receipt for Miscellaneous payment

Received with thanks: *One counterfeit banknote X £20*

From: *GARY PARLOUR*

For: _____

Additional details e.g. Office Code, Cheque No., Giro Acc. No. etc.: *14 WALKERN TERRACE, STEVENAGE, SG4 8XE*

Certified: *T. Cox*

This receipt must be signed in full initials are not sufficient

For Post Office Limited Use Only

Date Stamp: _____

P1091

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Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 5)

ch_05_06a v1.0

Counterfeit notes impounded when presented by customers for a transaction

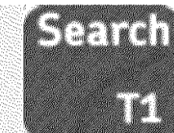
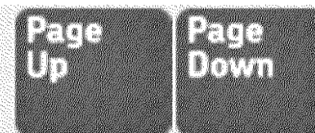
Transactions where you believe that the customer knows the banknote is counterfeit

Please remember: The receipt has no monetary value as the customer was not able to use the note as payment for a transaction

If the Police refuse to supply a receipt (or to collect the counterfeit banknote):

- Follow the procedure described in 'Transactions where you believe that the customer does not know the banknote is counterfeit'; see link.

Customer not
aware of
Counterfeits



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 3 of 5)

ch_05_06b v1.0

Counterfeit notes impounded when presented by customers for a transaction

Transactions where you believe that the customer does not know the banknote is counterfeit

- Advise the customer that the banknote must be sent to the issuing bank as you believe it is counterfeit
- Complete section 3 of the Counterfeit Notes or Discrepancies Found in Banknote Envelopes form P6005 and tick the corresponding box

<u>3. Impounded counterfeit note(s)</u> Description of customer returning or tendering the impounded note(s) Impounded by (signature): <i>Dennis Wilson</i>	<input checked="checked" type="checkbox"/> <table border="1"><tr><td>Height</td><td>Age</td></tr><tr><td><i>APPROX 5ft 10</i></td><td><i>APPROX 25-30</i></td></tr><tr><td>Sex: MF</td><td>Nationality <i>ASIAN</i></td></tr><tr><td><i>M</i></td><td></td></tr><tr><td>Hair colour <i>DARK</i></td><td>Eye colour <i>BROWN</i></td></tr><tr><td colspan="2">Clothing <i>PENSTRIPED SUIT, WHITE SHIRT AND TIE</i></td></tr></table>	Height	Age	<i>APPROX 5ft 10</i>	<i>APPROX 25-30</i>	Sex: MF	Nationality <i>ASIAN</i>	<i>M</i>		Hair colour <i>DARK</i>	Eye colour <i>BROWN</i>	Clothing <i>PENSTRIPED SUIT, WHITE SHIRT AND TIE</i>	
Height	Age												
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Sex: MF	Nationality <i>ASIAN</i>												
<i>M</i>													
Hair colour <i>DARK</i>	Eye colour <i>BROWN</i>												
Clothing <i>PENSTRIPED SUIT, WHITE SHIRT AND TIE</i>													
<u>DISCREPANCY FOUND IN BANK NOTE ENVELOPE REPORT</u>													

- Input the customer's name, address and telephone number in section 2 of the form

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 4 of 5)

ch_05_06c v1.0

Counterfeit notes impounded when presented by customers for a transaction

Transactions where you believe that the customer does not know the banknote is counterfeit

- Do not enter a tick in the tick box in section 2 of the form as you are impounding the banknote on this occasion, and not exchanging it

2. Counterfeit note(s) returned by a customer and exchanged <input checked="" type="checkbox"/>	
Name, address and telephone number of customer returning a counterfeit note/ receipt:	<div><p><i>MALIK ALI</i></p><p>Name</p><p><i>104 ALDERMASTER STREET</i></p><p>Address</p><p><i>THRUPPING</i></p><p>.....</p><p><i>SUSSEX</i></p><p>.....</p><p><i>BN4 1JP</i></p><p>.....</p><p>Telephone no. <i>06103 999 6824</i></p></div>
3. Impounded counterfeit note(s) <input type="checkbox"/>	

- Issue the customer with a Miscellaneous Receipt P1091 in exchange for the banknote (ensure that you input the value of the note and the serial number on the receipt)
- Telephone the NBSC to obtain an incident reference number

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 5 of 5)

ch_05_06d v1.0

Counterfeit notes impounded when presented by customers for a transaction

Transactions where you believe that the customer does not know the banknote is counterfeit

- Input the incident reference number given by the NBSC with the other general details at the top of form P6005

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES	
Instructions are included on the reverse of this form.	
GENERAL	
Office name: <i>CHANCERY COURT POST OFFICE</i>	Incident reference number: <i>H10448833</i>
FAD code: <i>059077X</i>	(Telephone the Network Business Support Centre, NBSC)
SAPADS Plant Code: <input type="text"/>	
Counterfeit note(s) value: <i>£50</i>	
Number of notes: <i>1</i>	
COUNTERFEIT NOTE REPORT	
(Tick one box and fill in the relevant details below: completion instructions are on the reverse).	

- Send the form to your Cash Centre with the counterfeit note

Please note: Ensure that you have input the incident reference number given by the NBSC as this is essential information.

- Do not claim for the value of the counterfeit note or remit the value of the note on the Horizon Online™ system as you are not exchanging it for a good one.

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 1 of 8)

ch_05_07 v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in 'loose note' deposits made at the counter

If you discover a counterfeit banknote in a 'loose note' deposit made in your branch by an Alliance & Leicester customer (i.e. when a Plastic Banknote Envelope (PBNE) is not used):

- Impound the counterfeit banknote
- Ask the customer to provide a genuine banknote for the same value
- If the customer is unable to do this ask them to amend the original barcoded document or cash ladder (if presented with a cash deposit card) or, if they have presented a standard Cash Handling deposit document, to amend and initial the deposit form and counterfoil, and sign the reverse of the deposit form in full, adding their title (eg. store manager)
- Provide the customer with a Miscellaneous Receipt P1091 for the impounded note

Please remember: The receipt has no monetary value.

- Advise the customer that the banknote must be sent to the issuing bank as you believe it is counterfeit

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 2 of 8)

ch_05_07a v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in 'loose note' deposits made at the counter

- Complete section 3 of the Counterfeit Notes and Discrepancies Found in Banknote Envelopes form P6005 and tick the corresponding box

3. Impounded counterfeit note(s)	<input checked="checked" type="checkbox"/>
Description of customer returning or tendering the impounded note(s)	
Impounded by (signature): <i>Steve Austin</i>	
Height <i>APPROX 5ft 6</i>	Age <i>30 - 35</i>
Sex: M/F <i>F</i>	Nationality <i>WHITE EUROPEAN</i>
Hair colour... <i>FAIR</i>	Eye colour... <i>BLUE</i>
Clothing... <i>BLUE BLOWSE, BLACK SKIRT</i>	

- Input the customer's name, address and telephone number in section 2 of the form

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Methods of Payment**Cash Handling / Counterfeit banknotes (Page 3 of 8)****ch_05_07b v1.0****Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor****Counterfeit banknotes discovered in 'loose note' deposits made at the counter**

- Do not enter a tick in the tick box in section 2 of the form as you are impounding the banknote on this occasion, and not exchanging it

<u>2. Counterfeit note(s) returned by a customer and exchanged</u> <input type="checkbox"/>																	
Name, address and telephone number of customer returning a counterfeit note/ receipt:	<table border="1"><tr><td>Name.....</td><td>MICHAEL JONES LTD</td></tr><tr><td>Address.....</td><td>99 BANKSIDE</td></tr><tr><td></td><td>LONDON</td></tr><tr><td></td><td>EC1A 2PP</td></tr><tr><td colspan="2">.....</td></tr><tr><td colspan="2">.....</td></tr><tr><td colspan="2">.....</td></tr><tr><td>Telephone no.....</td><td>0207 898 9898</td></tr></table>	Name.....	MICHAEL JONES LTD	Address.....	99 BANKSIDE		LONDON		EC1A 2PP		Telephone no.....	0207 898 9898
Name.....	MICHAEL JONES LTD																
Address.....	99 BANKSIDE																
	LONDON																
	EC1A 2PP																
.....																	
.....																	
.....																	
Telephone no.....	0207 898 9898																

- Telephone the NBSC to obtain an incident reference number

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Methods of Payment

Cash Handling / Counterfeit banknotes (Page 4 of 8)

ch_05_07c v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in 'loose note' deposits made at the counter

- Input the incident reference number at the top of the form P6005 with the other general details

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES	
Instructions are included on the reverse of this form.	
GENERAL	
Office name.. <i>CHANCERY COURT PO</i>	Incident reference number. <i>H15520708</i>
FAD code <i>059077X</i>	(Telephone the Network Business Support Centre, NBSC)
SAPADS Plant Code <input type="text"/>	
Counterfeit note(s) value... <i>£20</i>	
Number of notes... <i>7</i>	

Send the form to your Cash Centre with the counterfeit note

Please note: Ensure that you have input the incident reference number given by the NBSC as this is essential information.

- Do not claim for the value of the counterfeit note or remit the value of the note on the Horizon Online™ system as you are not exchanging it for a good one.

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 5 of 8)

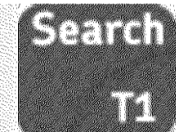
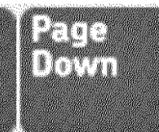
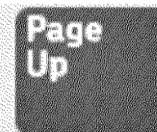
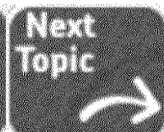
ch_05_07d v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in sealed Plastic Banknote Envelopes (PBNEs)

If you find a counterfeit banknote in a sealed Plastic Banknote Envelope that forms part of an Alliance & Leicester Business Deposit:

- If possible, ask a second person to check the counterfeit note and witness the resulting shortage
- Telephone your Cash Centre and ask them to contact the customer or Alliance & Leicester to invite them to make good the counterfeit banknote (advise them to instruct the customer that the banknote will be passed to the issuing bank)



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 6 of 8)

ch_05_07e v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in sealed Plastic Banknote Envelopes (PBNEs)

If the customer calls at your branch to make good the counterfeit note

- Accept the genuine banknote from the customer to replace the counterfeit one in the Alliance & Leicester Business Deposit
- Issue a Miscellaneous Receipt P1091 to the customer in exchange for the counterfeit note
- Send the counterfeit note to the issuing bank with a covering letter, giving the circumstances of the transaction and the customer's details.

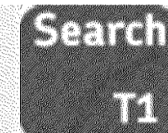
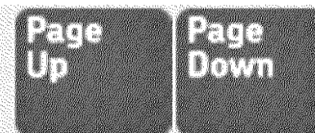
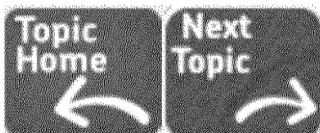
Bank of
England
Banknotes



(for a list of bank addresses, see link)

If the customer does not call at your branch to make good the counterfeit note

- Ask the Cash Centre to give you a reference number to enter in section 4 of the Counterfeit Notes and Discrepancies Found in Banknote Envelopes form P6005



Methods of Payment

Cash Handling / Counterfeit banknotes (Page 7 of 8)

ch_05_07f v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in sealed Plastic Banknote Envelopes (PBNEs)

If the customer does not call at your branch to make good the counterfeit note

- Tick the corresponding box in section 4

<u>DISCREPANCY FOUND IN BANK NOTE ENVELOPE REPORT</u>	
<u>4. Discrepancy found in bank note envelope</u>	<input checked="checked" type="checkbox"/>
Received from <i>THOS COWAN LTD</i>	Date received
Date opened... <i>9/8/02</i>	Shortage/surplus* <i>8/8/02</i>
*delete as applicable	
Cash Centre reference number... <i>H81046</i>	
Opened by (signature)..... <i>Alan Foster</i>	
Witnessed by (signature)..... <i>Darren Lane</i>	
P6005	

- Telephone the NBSC to obtain an incident reference number

Methods of Payment

Cash Handling / Counterfeit banknotes (Page 8 of 8)

ch_05_07g v1.0

Counterfeit notes found in a deposit prepared by an Alliance & Leicester business depositor

Counterfeit banknotes discovered in sealed Plastic Banknote Envelopes (PBNEs)

If the customer does not call at your branch to make good the counterfeit note

- Input the incident reference number at the top of the form, with the other general details

COUNTERFEIT NOTES OR DISCREPANCIES FOUND IN BANK NOTE ENVELOPES	
Instructions are included on the reverse of this form.	
GENERAL	
Office name.. <i>WARREN STREET PO</i>	Incident reference number.. <i>H13596541</i>
FAD code <i>079032X</i>	(Telephone the Network Business Support Centre, NBSC)
SAPADS Plant Code <i> </i>	
Counterfeit note(s) value.. <i>£50</i>	
Number of notes.. <i>1</i>	

- Remit the counterfeit banknote(s) as unusable banknotes on the Horizon Online™ System.

Inputting Cash
Remittance Out

Annex 2

Initial Complaint Review and Mediation Scheme

Pensions and Allowances "Reintroduction" Fraud

- 1 Summary
 - 1.1 Second Sight has asked whether there is an overarching briefing report which covers all Pensions and Allowances "Reintroduction" fraud. In asking the question, Second Sight assert that there appears to be "something of a pattern emerging" and, in particular, Second Sight questions why some of the prosecutions it has seen references to in Applicants' CQRs did not proceed to a conviction.
 - 1.2 It is not within the scope of the mediation scheme or within Second Sight's expertise to comment on whether prosecutions should or should not have been brought, but for the avoidance of doubt Post Office only prosecutes cases which merit prosecution and does so always on legal advice. However, Second Sight may wish to note that Post Office's experience is that the vast majority of the cases it takes to court involving reintroduction fraud are successful prosecutions.
 - 1.3 Second Sight appears to be drawing its information from eight CQRs which is only a narrow subset of cases and which do not reflect all of Post Office's prosecutions. In addition, Post Office has neither seen nor had the opportunity to investigate all of those cases. Nor has Second Sight, except in relation to two cases, been able to consider the evidence and assessment provided by Post Office.
 - 1.4 There is no overarching briefing report which would assist Second Sight explain a 'pattern' as, for the reasons explained in this paper, Post Office does not consider that such a pattern exists. However, Post Office hopes that the information provided in this paper will answer the points raised by Second Sight.
- 2 Pensions and Allowances Reintroduction Fraud
 - 2.1 "Reintroduction fraud" occurs where a subpostmaster (or assistant) dishonestly processes a false benefit claim through Horizon and then either does not remit the associated benefit paperwork (because no paperwork exists) or, more commonly, remits (reintroduces) paperwork for another benefit transaction (in effect trying to claim the same benefit twice). This generates a cash surplus within the branch accounts which can be set off against existing shortages or removed from the branch.
 - 2.2 Second Sight has asked why the standard operating procedure, the design of the dockets, and the cancellation process did not prevent reintroduction fraud occurring.
 - 2.3 Second Sight has also queried whether the surpluses could be created by human error rather than fraud.
 - 2.4 In summary, Post Office's response is that:

- 2.4.1 P&A dockets were designed by Department of Work and Pensions (DWP) and therefore their design was outside of POL's control.
- 2.4.2 P&A dockets are no longer used – they have been replaced with the Post Office Card Account which uses a "Chip and Pin" system.
- 2.4.3 Nevertheless, DWP did have in place a process whereby dockets were checked to ensure that they were not duplicates, thereby identifying any fraud.
- 2.4.4 Even where the re-introduction of a benefit payment is accidental, this is still an error for which the subpostmaster is liable.
- 2.4.5 "Overclaims" and "reintroductions" will not cause a cash loss to a branch. They generate a cash surplus, which as long as the cash is not removed from the branch, will be off-set by a later transaction correction.

3 Benefit payment methods

3.1 There are various methods by which benefits can be received by customers:

3.2 Pension & Allowance (P&A) books

- 3.2.1 P&A books were provided by DWP to customers entitled to benefits. A nominated Post Office branch was set out on the cover of each P&A book, together with the customer's name, address, reference number (National Insurance or pension number), serial number of book and Common Payment Package Number.
- 3.2.2 Within each book were (usually) 20 dockets, vouchers or foils (referred to in this note as vouchers). These vouchers were not barcoded but did detail the customer's unique National Insurance or Pension number, serial number, a due on and not before date (to ensure that the benefits could not be claimed in advance), FAD code of the nominated Post Office branch, voucher number and amount to be paid. The vouchers normally appeared two to a page and were sequentially numbered.
- 3.2.3 The vast majority of P&A books were barcoded. The subpostmaster or assistant should scan the barcode or, where for some reason that was not possible (because the barcode was damaged or missing) enter the P&A book details manually on to Horizon.
- 3.2.4 On being presented with a P&A book by a customer, the subpostmaster or assistant should examine the front cover to check the branch is the nominated Post Office branch of payment, and then scan the barcode. Scanning the barcode or entering the required details manually ensures that the P&A book is checked against the Order Book Control Service (OBCS) electronic stop list, to see whether a payment should be made or restricted in some way. Once these checks were completed, Horizon would then instruct the subpostmaster or assistant to pay, pay and impound the P&A book, or impound the P&A book. There could be a number of reasons for a payment to be stopped or a book impounded (eg. the book had been flagged as being stolen).

- 3.2.5 In rare instances P&A books were not, and were not intended to be, barcoded. This was as a result of the DWP requirements which varied for different benefits. It was also DWP which specified which checks should be carried out for the different types of books. In such cases, the subpostmaster or assistant was required to check that the book did not appear on a manual stop payment list. Provided that it did not, in the case of non bar-coded books, the subpostmaster or assistant would enter the group number of the benefit to be paid as specified on the voucher, and the amount to be paid. These details did not result in the book being checked against OBCS and as such the instruction to pay or impound would not be given on Horizon.
 - 3.2.6 The vouchers collected from customers were despatched each week by each branch to the Paid Order Unit (which in effect is the DWP) in Lisahally, Northern Ireland.
 - 3.2.7 P&A books ceased to be used in circa 2005 and were replaced with Post Office Card Account.
- 3.3 Post Office Card Account (POCA)
 - 3.3.1 POCA is a limited service bank account that only allows benefits to be deposited into the account by DWP and cash to be withdrawn. Withdrawals are conducted by the customer taking his POCA card into a Post Office and withdrawing in cash either some or all of the benefits within his account. POCA uses a chip and pin security system to control access to the account.
- 3.4 Green Giros
 - 3.4.1 Customers who lose their POCA cards or customers who are on temporary benefits may be sent Green Giros by the DWP.
 - 3.4.2 These are cheques (also known as DWP cheques) which set out the payment amount and can be cashed in the usual way. These cheques are datestamped and retained by the Post Office after paying the customer. They have historically been accounted for and despatched by each branch weekly to Alliance & Leicester. They are now sent to Santander (both banks are referred to in this note as Santander for ease of reference).
- 4 P&A fraud
 - 4.1 P&A fraud encompasses a number of different types of fraud, some of which are historical due to the change in payment methods over time as detailed above. These methods are as follows:
 - 4.2 Overclaim fraud
 - 4.2.1 Overclaims occurred with P&A books and Green Giros.
 - 4.2.2 For each benefit payment to a customer recorded on Horizon, the branch should take from the customer the associated voucher or cheque and remit each week all

vouchers to DWP and all Green Giro cheques to Santander. An overclaim occurs when the branch records a benefit payment on Horizon but does not remit the associated voucher or cheque. Without the voucher / cheque POL cannot recover the payment from DWP / Santander. This places a loss on POL which is then passed to the branch by way of a transaction correction (formerly known as an error notice, but referred to in this note as a transaction correction for ease of reference).

- 4.2.3 Overclaims are relatively easy to identify as the branch must record the remittance of vouchers or cheques out of the branch on Horizon and therefore it is possible to identify any missing weekly remittance.
 - 4.2.4 A fraud can be committed by recording fake benefit pay-outs on Horizon, which lowers the amount of cash recorded to be in the branch (as Horizon assumes the cash has been passed to the customer). This causes a short term surplus (until the missing voucher / cheque is discovered and a transaction correction sent through) which can be used to cover other losses or removed from the branch at the end of trading period (assuming that there are no other offsetting losses).
 - 4.2.5 Where a fraudulent purpose was intended, the perpetrator would not scan the P&A book barcode but would rather manually input partial details of the P&A book on Horizon so to avoid the automated OBSC checks.
- 4.3 Reintroduction fraud
- 4.3.1 Reintroduction fraud is a more sophisticated version of overclaim fraud whereby the false benefit pay-outs are disguised by the submission of duplicate paperwork.
 - 4.3.2 In reintroduction fraud, a legitimate benefit pay-out is recorded on Horizon with cash being paid to a customer but with the corresponding voucher / cheque not being datestamped or remitted out. At a later date (typically the following week), the same benefit pay-out is recorded again on Horizon. This time however no cash is paid to a customer (as the customer is not present) but the voucher / cheque is date-stamped at the later date and remitted to DWP / Santander.
 - 4.3.3 For example, in week 1 there would appear to be an overclaim (amount claimed but no corresponding voucher or cheque). The amount would be claimed again in week 2 by submitting the cheque or voucher from week 1 (by this time datestamped). The fraud is premised on DWP / Santander not spotting the reintroduced voucher / cheque.
 - 4.3.4 The material difference between "overclaims" and "reintroductions" is that the former is possibly caused by human error (eg. forgetting to remit a voucher) however the latter takes a positive decision to re-process a benefit pay-out even though the transaction with the customer has already occurred. Although a "reintroduction" can happen by accident, the subpostmaster would still be liable for this error and multiple reintroductions would be indicative of fraud.
- 4.4 Each of these frauds have taken place both before the introduction of Horizon and once Horizon was in operation in Post Office branches. This is not a Horizon related issue.

5 Detection of fraud

- 5.1 The detection of P&A book frauds, of any kind, was by the DWP (specifically the Paid Order Unit or POU responsible for paid orders) which referred them to the Post Office where appropriate.
- 5.2 The detection of Green Giro frauds, of any kind, are identified by Santander and the DWP (for lost/stolen cheques) and referred to Post Office where applicable.
- 5.3 Examples of patterns that would suggest improper activity would include large overclaims, high volumes of manual entries (as opposed to scanning barcodes or entering full details manually) with barcoded P&A books, reintroductions week after week and significant amounts of lost/stolen encashments in a branch.
- 5.4 Following investigation, where appropriate, a prosecution may have been brought by Post Office, or sometimes a jointly led case with DWP. Accordingly, Post Office did / does not instigate these investigations and in effect there were / are at least two parties who assessed the situation and determined whether a case was worthy of investigation.
- 5.5 By the nature of these frauds, which often involve DWP, police assistance and powers of arrest were often required, for example if a fraud was deemed to be significant or prolific, or if there were reasonable grounds to suspect searches were necessary and evidence was likely. Post Office only deals with suspects on a voluntary basis whereas suspects can be compelled where the police are involved. For this reason, suspicions of this type of fraud are often passed to the police to investigate.

6 Prevention of fraud

- 6.1 Second Sight has queried why such frauds have not been prevented.
- 6.2 In the above cases, the fraud is committed at the point in time that the Horizon operator in a branch records a duplicate or false transaction on Horizon, or alternatively when the perpetrator deliberately inputs a bar-coded book as non bar-coded. At that point, POL has no information available to determine whether the transaction is fraudulent or not. This checking process is engaged when the branch remits (or fails to remit) vouchers / cheques to DWP / Santander as described above or where DWP identifies that barcoded P&A book vouchers were being inputted as if they were non bar-coded. Horizon was required to have functionality to permit subpostmasters to input the details of non bar-coded books because DWP issued these books and required POL to pay the benefits from them.
- 6.3 Due to the number of transactions carried out throughout the Post Office network on a weekly basis, it is not possible for the DWP or Santander to check every single transaction carried out. Instead, they conduct random or rota checks. This may mean a fraud is not immediately discovered. If an overclaim or reintroduction was discovered as a result of a rota check, then Post Office would issue a transaction correction provided only a single instance of an overclaim or reintroduction had been discovered. Where more overclaims or reintroductions are evident, an investigation would be raised.
- 6.4 However, it was open to a subpostmaster to carry out immediate checks for P&A fraud as the subpostmaster will have access to (i) each week's batch of cheques/vouchers and (ii) that

week's records of P&A transactions as recorded in Horizon. It is therefore possible for a subpostmaster to easily confirm that the value of the cheques and vouchers being remitted each week match the value of benefit pay-outs recorded on Horizon. This would reveal any overclaims or reintroductions.

7 Non-fraudulent errors

- 7.1 A cash surplus may also be created in error if a subpostmaster or an assistant accidentally duplicates a benefit payment entry on Horizon. The Mediator's Briefing Report at sections 10.5 (mis-key) and 10.8 (errors in cash handling) describes potential "operator-error" causes of surpluses in more detail.
- 7.2 Although these errors would not be fraudulent, the branch is still liable for the error and it is appropriate for POL to submit a transaction correction to the branch to correct the error.
- 7.3 In the case of an overclaim, if on receipt of the transaction correction the branch has the missing voucher, then they can remit the voucher to POL and the transaction correction will be withdrawn.
- 7.4 It should be noted that "overclaims" and "reintroductions" will not cause a loss to a branch. They generate a cash surplus which, as long as the cash had not been removed from the branch, will off-set any later transaction correction.

8 Criminal prosecution of P&A fraud

- 8.1 There are a number of important matters to be taken into consideration when deciding whether to prosecute a case of suspected P&A fraud. In particular, Post Office applies the two-stage test for prosecution set out in the Code for Crown Prosecutors namely that:
 - There must be evidence sufficient to provide a realistic prospect of conviction; and
 - The prosecution must be in the public interest.
- 8.2 Various parties contribute to this decision-making process including DWP, Post Office investigators, Post Office Decision Managers, Post Office Legal and the instructed barrister. There are therefore a number of checks and balances built into the system before a decision is taken to prosecute.
- 8.3 Post Office also confirms that from its experience where prosecutions were conducted by Royal Mail prior to separation, those prosecutions were also only brought following the same process and on legal advice.
- 8.4 Investigations can take time, partly as a result of the involvement of the DWP and Santander and the additional time needed to obtain witness statements or evidence from them.
- 8.5 In considering why prosecutions may not proceed, it is relevant to be aware that the victims in P&A frauds are often the elderly and vulnerable. These victims are crucial as witnesses. Given their circumstances, it can be a difficult experience for them to give evidence in court and

some, naturally, do not wish to do so. In addition, some victims/witnesses pass away before a case gets to trial or are otherwise unable to take matters forward due to ill health.

8.6 The availability of crucial witnesses is a factor in Post Office's decision whether to pursue a case to prosecution. It does not follow that simply because a prosecution is not progressed all the way to trial, Post Office was incorrect to seek to bring that prosecution in the first place.

8.7 It should be noted that where Post Office offers "no evidence" in Court this does not mean that there is no evidence of an offence. Offering "no evidence" is the legal process by which criminal proceedings can be brought to a close for a variety of reasons (eg. there may be very strong evidence of an offence but it may not be in the public interest to proceed).

25 July 2014

Annex 3

Transaction Recovery - Horizon Online Quick Reference Guide

Hints and tips –when there's a failure

(Refer to flow diagrams on reverse)

- Avoid logging on to more than one counter at once with same user name
- If there's a Disconnected Session Receipt, settle with the customer in line with what it says. KEEP A NOTE OF ANY CASH exchanges.
- Make a note of what you did, in case there are recovery questions
- If counter has to be replaced and user hadn't logged out, make a note of last successful session

Hints and tips –awaiting recovery

- Don't use Transaction Log search to check the outcome of the failed session until recovery is complete as it won't appear until fully complete.
- Don't try to reverse transactions from the failed session
- Don't use the customer's account balance to check the outcome as there could be a delay in the refund.
- Don't put transactions through again unless recovery is complete.
- You may have a cash variance. The stock unit can't be balanced until the recovery has completed. Stock volumes may require correcting.
- Do log on to all counters with failed sessions as soon as possible (once the system seems stable)

Hints and tips –in recovery

- Use the Disconnected Session receipt, or notes made when the counter failed, to help answer recovery questions (if any)
- If a different clerk is likely to be using the counter, make sure they have this information
- Once recovery is complete, you can use Transaction Log search if needed
- Contact NBSC if the outcome doesn't match what you did and it is not something you can reverse / put through again
- If recovery fails, this will be automatically investigated, but you should inform NBSC

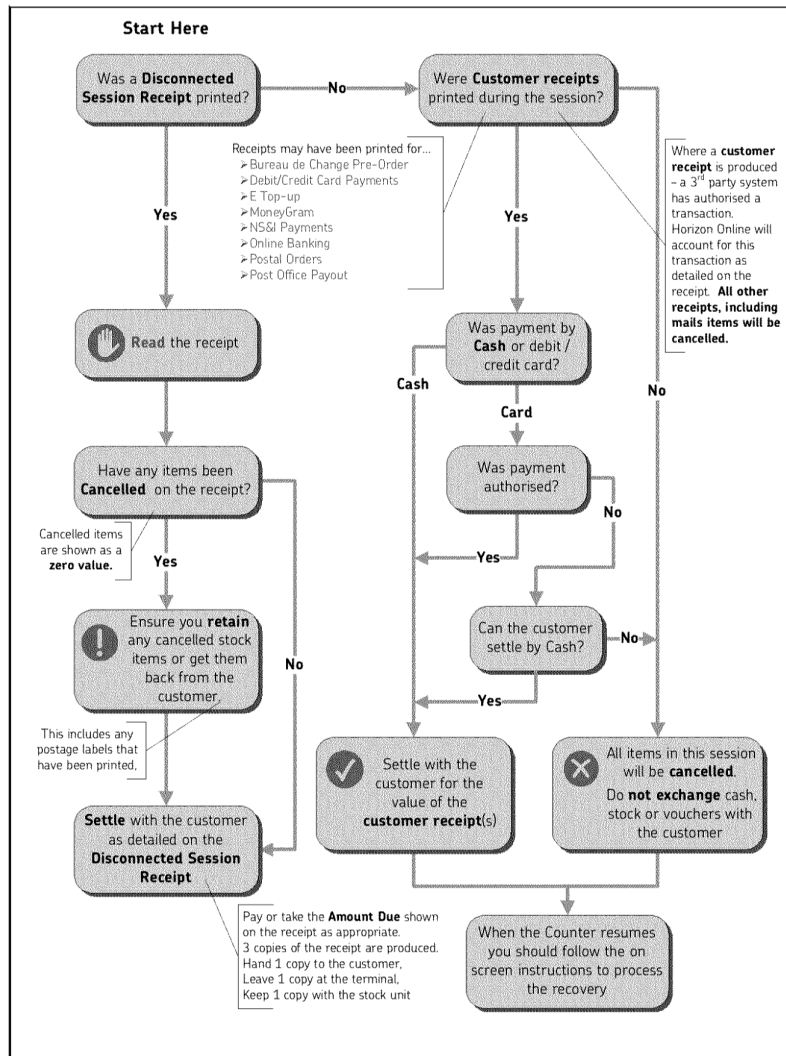
Recoverable transaction types

- During a customer session, the basket of transactions is built up on the counter, and stored on the database at the data centre when the session is settled
- For some types of transactions, information is stored centrally during the transaction –these are Recoverable transactions
- Recoverable transactions are usually those where there is an interaction with an external system during the transaction
- Non-recoverable transactions are also referred to as Cancellable
- The only information stored permanently on the counter is the last completed session number

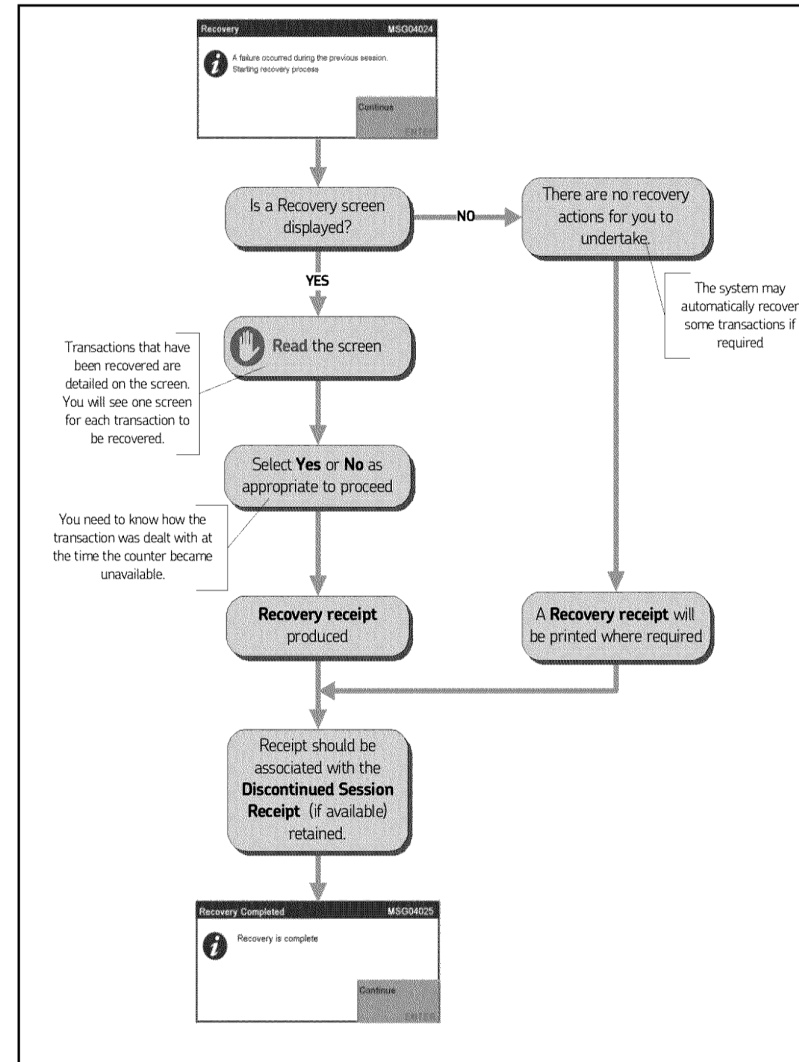
Which transactions are Recoverable?	And those that aren't recoverable (Everything else is Cancellable, including)
Bureau Pre-orders	All Mails transactions (including labels)
Moneygram	Bill payments
Online Banking Services	Personal banking
E-Top Up	Transcash
Reversals (new and existing)	Back office transactions other than reversals
Postal Orders	All Mails transactions (including labels)
Post Office Payout	
National Savings and Investments	
Drop and Go	
.Debit/credit card payments	

Transaction Recovery - Horizon Online Quick Reference Guide

What to do when a Horizon Online counter is unable to connect to the Data Centre or becomes unavailable due to Screen Freeze



What to do when a Horizon Online connectivity is restored



Annex 4

Initial Complaint Review and Mediation Scheme

ATMs – power, telecommunications and third party fraud

- 1 Summary
 - 1.1 Second Sight has questioned whether Post Office ATMs accurately retain transaction records in the event of a power or telecommunications failure. It has also questioned whether branches can suffer losses due to third party attacks on ATMs.
 - 1.2 The ATMs used by Post Office are designed to be resilient to a power and telecommunications failure. In the event of such a failure, data is stored securely on a hard-disk in the ATM and the ATM shuts down in order to prevent misuse. These systems are tested and upgraded by Wincor Nixdorf / Bank of Ireland ("BOI"), the ATM provider, and they meet industry standards.
 - 1.3 Post Office is confident that a power and telecommunications failure in relation to an ATM will not cause any discrepancy that could feed through to an error in a branch's accounts.
 - 1.4 Neither Post Office nor BOI are aware of any form of ATM fraud that will create a shortage in a branch if a branch is following the correct ATM accounting procedure. This does not mean that cash is not lost due to ATM fraud (this is a risk for any operator of ATMs) but Post Office's standard procedures mean that such losses does not fall on a branch.
 - 1.5 This paper responds to a series of questions on these topics posed by Second Sight.
- 2 What happens if an ATM is turned off and on again during the day or weekend and what happens if there's a power cut interrupt?
 - 2.1 If there is a loss of power then the ATM will go out of service but the transaction data and information on the daily ATM total receipts will not be lost as this will be stored in the electronic journal on the ATM.
- 3 Does the ATM always pick up from where it left off and incrementally add new dispensed figures (dispensed before 16:30 hrs but AFTER the power or telecoms interrupt) to those stored figures?
 - 3.1 Yes.

- 4 Have POL/Bol/Wincor ever run tests on this functionality?
 - 4.1 BOI and Wincor perform tests at User Acceptance Testing level when any change is developed or deployed which would test for this functionality.
 - 4.2 Also any rebuild/maintenance to an ATM in the field that affects its software would also go through user acceptance testing before being brought back into service.

- 5 Are the ATMs running on a Windows NT platform?
 - 5.1 All BOI ATMs in Post Office branches have always operated on Windows XP and never the Windows NT platform.
 - 5.2 There are currently changes to ATM operating systems across the industry as XP is being replaced. BOI is working with Wincor on planning for this change. This programme is planned for 2015 as both central and local device changes are required.
 - 5.3 In the interim, whilst the ATM fleet is on the WIN XP operating system, BOI do not rely on Windows XP security. BOI uses industry leading software on all fleets to mitigate against the security risks associated with WIN XP.

- 6 What sort of routine investigations are carried out (by POL/Bol/Wincor) when ATM cash shortages are reported?
 - 6.1 Any unresolved cash discrepancies can be escalated by the branch for further investigation by BOI, POL or Wincor as appropriate.
 - 6.2 Any ATM Horizon stock unit misbalances (shortages or surpluses) can be escalated to NSBC. NSBC (or the ATM team at Post Office) will, where applicable, then go through all relevant ATM Horizon transactions (e.g. cash transfers, cash dispensed figures, etc.) with the branch to help resolve the issue.
 - 6.3 If further investigation is required, the matter can be escalated to Wincor. Initial investigations carried out by Wincor typically involve reconciling the weekly balancing information submitted by the branch through Horizon against the Electronic Journal information recorded on the ATM. Wincor will contact the branch directly with the outcome of its investigations
 - 6.4 If the outcome of these investigations point to an incorrect figure being recorded in Horizon by branch staff or there being a miscount of physical ATM cash in branch, this will be discussed with the branch as the subpostmaster may be liable for this type of shortage/loss.

- 6.5 If the outcome of these investigations point to a technical fault with the ATM (which is extremely rare) this can produce a shortage when balancing the ATM or a loss on the Horizon ATM stock unit. In these cases a credit is passed to branch in the form of a transaction correction.
- 7 Are Wincor ATMs susceptible to partial retract, transaction reversal or malware attacks / fraud? What steps has POL / Wincor taken to combat any recent malware or hacking attacks on ATMs?
- 7.1 Neither Post Office nor BOI are aware of any form of ATM fraud that will create a shortage in a branch if a branch is following the correct ATM accounting procedure. This does not mean that cash is not lost due to ATM fraud but Post Office's standard procedures mean that such losses do not fall on a branch.
- 7.2 As explained in Post Office's previous note to Second Sight on retract fraud, this type of fraud does not cause a loss to a branch where the correct Post Office procedure is followed. Second Sight has not defined what it means by a "transaction reversal attack" but Post Office understands this to be fundamentally the same as retract fraud.
- 7.3 As explained above, BOI ATMs have in place industry leading software security against malware attacks which includes Wincor's PSA/Protect-1 OS which protects each ATM from remote attack.
- 7.4 Although not specifically raised by Second Sight, another form of ATM attack is cash trapping. In the case of cash trapping, there is no loss to the branch as cash has been dispensed correctly from ATM (and will be recorded as being dispensed by the ATM on the Bank Totals receipt) but intercepted by fraudster. It will be the customer that did not receive their cash. Although Post Office will assist customers and BOI to investigate any cases of cash trapping, it will not cause a loss in the branch accounts as the accounts will record cash being dispensed and the cash will have been taken (albeit by the fraudster rather than the customer).

20 October 2014

Annex 5

Initial Complaint Review and Mediation Scheme

Retract fraud on ATMs: Post Office Review

Executive summary

Retract fraud:

Retract fraud occurs where a customer conducts a withdrawal transaction from their own bank account using an ATM. When the cash is vended, the customer looks to remove the middle notes, leaving the top and bottom notes behind, thereby hoping to trick the ATM into believing that the cash has not been taken. The ATM then retracts the cash back into the machine, believing that it has retracted the entire sum withdrawn.

Issue:

Second Sight has raised a concern that when a subpostmaster comes to count the cash in an ATM which has been subject to retract fraud, there would be a shortfall between the amount of cash physically in the ATM and the amount recorded on the ATM as being retracted. Second Sight asks whether subpostmasters are held liable for this loss.

Response:

As long as a subpostmaster follows the correct ATM balancing procedures and accurately records the amounts of cash in the ATM, the subpostmaster will not be liable for any ATM cash loss caused by retract fraud. A loss of cash from an ATM caused by retract fraud falls on Bank of Ireland (BOI). It is not passed to a subpostmaster and there will be no negative impact on a branch's accounts if the subpostmaster has followed the proper accounting process.

Retract fraud

All ATMs in the UK (including those operated by BOI at Post Office branches) are at risk of retract fraud. Customers undertake this fraud in the hope of persuading their bank that they have not received the cash withdrawn from an ATM.

After physically removing cash from the ATM in the manner described above, the fraud is perpetrated in two ways:

- (i) The customer waits to see if a full refund of their cash withdrawal is automatically refunded by their bank; or
- (ii) The customer contacts their bank to "complain" about a withdrawal from their account on the false grounds that they did not receive the withdrawn cash from the ATM.

It should be noted that where money is retracted, the withdrawal transaction still proceeds and the sum "withdrawn" is debited from the customer's account.

The fraudulent customer's intention is that when the bank checks the retract records for the ATM in question, it sees that there was a retract recorded against the customer's withdrawal transaction and would then re-credit the customer's account.

ATM accounting process for retracts

The branch accounting process for retracts is set out in Post Office accounting instructions. The latest version of the process is set out at section 3.3 of *MISC1425: Post Office® Accounting Instructions for Bank of Ireland ATMs* – a copy of which has been provided to Second Sight.

This accounting process has not materially changed for a number of years. Previous versions of the accounting instructions have also been provided to Second Sight.

The accounting process for retracts is as follows:

1. Each working day, a subpostmaster must check the ATM Totals receipt (which is generated by the ATM) to see if any retracted transactions have taken place since the last ATM weekly balance was completed. The receipt will show the number of retracts.
2. If any retracts have taken place, the subposmaster must physically remove the retracted notes from the ATM (which are stored in a separate part of the ATM from other cash).
3. For all retracted cash removed from an ATM, the subpostmaster must count and report on Horizon the total value of retracted cash on the same day (using the ATM Surplus Cash button on Horizon). If a retract occurs when the Post Office branch is closed it should be removed and reported on the next working day.
4. Once reported on Horizon, the retracted cash should be placed in the main branch safe and forms part of the cash holdings of the branch.

The subpostmaster does not have access to, nor is required to record on Horizon, the value of the withdrawal transactions connected to the retracts. Therefore any loss due to retract fraud (ie. where there is a difference between the withdrawal value and actual amount of retracted cash) will not be recorded on Horizon by the subpostmaster and cannot therefore be the cause of a loss in the branch accounts.

It should be noted that BOI ATMs only allow 2 retract transactions before the machine goes out of service. In this instance, the retracts need to be reported (as described above) and the retract counter within the ATM has to be reset to zero in order to bring the ATM back into service. This is to prevent multiple retract frauds happening. It also means that accounting for retracts on Horizon is very simple as the amount of cash involved is likely to be small.

Reconciliation with BOI

Post Office provides to BOI details of the amount of each retracted cash transaction as part of its weekly ATM balances recorded in Horizon. BOI uses that information to look for a match between the actual amount of retracted cash removed from the ATM and the amount of the original cash withdrawal transaction. If there is a match, then this will indicate that there has been no retract fraud and the full amount will typically be re-credited to the customer. If there is a discrepancy, then BOI may undertake further investigations into the customer's activity.

As long as Post Office can provide the daily retract declarations from Horizon then any loss caused by any retract fraud does not fall on the subpostmaster.

If a subpostmaster does not declare a weekly ATM balance through Horizon, which includes the amount of any retracted cash, then Post Office cannot provide that information to BOI. As BOI has not been provided with balancing information it is unable to determine whether a retract was fraudulent. The full amount of the cash withdrawal re-credited to the customer is therefore charged on by BOI to Post Office.

Reconciliation with the subpostmaster

Where Post Office is charged by BOI, it passes on this charge to the subpostmaster by way of a transaction correction where the weekly ATM balance, including any retracted cash records, are not available because of the subpostmaster's failure to follow proper accounting processes.

It should be noted that where the retract was not fraudulent, the correct amount of cash will have been retracted into the ATM. Even if the subpostmaster has not properly accounted for this cash on

Horizon, the retracted cash will still be in the branch (either in the branch's cash holdings or still in the ATM) as surplus cash. This surplus cash will offset any Transaction Correction for failing to follow proper accounting procedures.

Where retract fraud has occurred, then the amount of surplus cash recovered from the ATM will be less than the amount of the original cash withdrawal transaction. This discrepancy will fall on the subpostmaster due to them not following proper accounting procedures

Post Office considers that this allocation of risk between the parties is fair and reflects each parties' respective responsibility for preventing retract fraud. In the round, the risk to subpostmasters is small, entirely within a subpostmaster's control and can be eliminated if the subpostmaster accounts for retracts on a daily basis as per the ATM operating and accounting instructions issued by POL.

5 March 2014

Annex 6

Strictly confidential and commercially sensitive

Initial Complaint Review and Mediation Scheme

Suspense Account

This paper

This paper has been prepared for Second Sight in response to the following question raised by Second Sight:

“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?”

Summary Position

Post Office principally pays its clients according to transaction information originating from branches. If the transaction is completed correctly the branch accounts will balance (ie. they will show no loss or surplus of cash or stock). Post Office will then deal separately with any reconciliation discrepancy with a client.

If a branch, a client or a customer suspects an error with a transaction then there are processes in place for investigating that suspected error. Where an error is suspected in branch and a transaction correction is sent to that branch, the branch has full visibility of that transaction correction and has the ability to challenge that transaction correction. So long as the branch validly challenges the transaction correction with the necessary supporting paperwork from the branch's records, the branch will not be held liable for the underlying discrepancy.

Client reconciliation – how it works

Horizon collects data on a substantial volume of transactions which allows it to identify issues by branch, transaction type, client and method of payment according to how the transaction was recorded in the branch. In conjunction with clients, and subject to data protection requirements, Post Office can also sometimes track transactions back to individual customers or, in many cases, the subpostmaster may themselves recall the customer involved through their own knowledge of their customer base.

For many services, the transactional records as recorded in Horizon in branch are the sole data stream regarding activity in a branch. For a number of transactions and methods of payment, though, it is possible to compare the transactional records as recorded in Horizon with the clients' view of the transactions. In these latter cases, the daily transactional totals recorded in Horizon by the subpostmaster are matched with clients' records which in almost all cases are the same. In the rare cases where there is a mis-match, Post Office investigates the difference – a process which can involve the subpostmaster and the client.

Where an error is suspected in branch, a transaction correction may be issued with relevant evidence to correct the accounting record of what has happened in branch. This may occur, for example, where there is a discrepancy between the branch records and the client records. If a difference arose where the client records exceeded the branch records then for services where the

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customer was paying money in that could lead to a charge from Post Office to the branch or where the customer was withdrawing money it could lead to a credit from Post Office to the branch.

The transaction correction process is fully visible to each branch and corrections cannot be made without a subpostmaster having accepted them. Subpostmasters may also challenge a transaction correction which would result in the transaction correction being put on hold pending further investigation by Post Office. For some transactions, the branch may hold additional paperwork or evidence not available to Post Office. Often branches are asked to submit this extra evidence to Post Office in order to validate the subpostmaster's challenge.

It should be noted that assuming the branch paid out or took from the customer cash to the same value as the actual transaction, then there will be no physical loss of cash and the transaction correction will simply correct the accounting error.

However, the branch is accountable for any failure to follow correct operating procedures in terms of processing transactions. It is the case that a subpostmaster may bear a loss if they have incorrectly processed a transaction or failed to follow the necessary processes for correcting that transaction or should they accept a transaction correction even though they were holding the necessary evidence to disprove the transaction correction.

Example

An ATM is directly connected to the LINK network and hence to the banks. Customer withdrawals are therefore reported direct to the customer banks and to Bank of Ireland as the provider of the ATMs. Bank of Ireland therefore knows how much should be paid to Post Office for the value of withdrawals done in the Post Office estate. In tandem with this, subpostmasters are required to record in Horizon the value dispensed to customers on a daily basis (as shown on the 16:30-16:30 receipt).

If a subpostmaster erroneously records the wrong cash dispensed figure on Horizon, this would be revealed as a discrepancy once the Horizon figures were compared to the Bank of Ireland figures directly recorded from the ATM. However, this would not cause a cash loss, only an accounting error, that would be corrected by a transaction correction.

Alternatively, if (in theory) Bank of Ireland's figures were incorrect, it would be a relatively straightforward exercise for a subpostmaster to challenge a transaction correction and submit to Post Office the 16:30-16:30 receipt from the ATM that would prove they have entered the correct figure into Horizon.

Suspense account

The proposition underlying Second Sight's question is that where the Counterparty Company – the "client" – informs Post Office that an amount due to the client is greater than that recorded by the Branch, that charge is automatically passed onto the branch, and the branch has limited data on which to investigate discrepancies. Second Sight appears to assert that this results in a systemic control weakness. This assertion is incorrect given that:

- Post Office and the client are often able to resolve differences between themselves in the first instance, or are able to resolve them with the help of the subpostmaster, before getting to the stage of issuing a transaction correction.

Strictly confidential and commercially sensitive

- A transaction correction will be issued where appropriate with supporting evidence and the subpostmaster can either accept or challenge (on the basis of the evidence and other information held in branch or available on Horizon).
- Horizon provides a subpostmaster with a number of 'reports' which can be used to resolve queries in branch.

It is acknowledged that Post Office has a suspense account for discrepancies between Horizon records and client records. These discrepancies are held for 3 years for investigation before being released to Post Office's profit and loss account.

This does not however operate to the disadvantage of subpostmasters. As described above, there are extensive processes in place to investigate Horizon-client discrepancies. To the extent that Post Office issues a transaction correction to a branch then the transaction correction and its evidence may be challenged by the branch. So long as a subpostmaster challenges a transaction correction and submits the applicable evidence to show there is no error on their part, Post Office will withdraw the transaction correction even where the client does not accept the evidence from the branch. The unresolved discrepancy therefore does not fall on the branch, but rests in the suspense account to be resolved between Post Office and the client.

Post Office notes that in addition to the assurance processes referred to in this note, Second Sight have given subpostmasters the opportunity to challenge specific transactions or transaction corrections through the Spot Review process and through the Scheme. The outcomes of those investigations have not revealed any findings that overturn Post Office's position.

Other issues

In the narrative supporting the central question, Second Sight also raise a number of other issues which we would like to address:

- Second Sight claims to have seen many cases where a non-cash payment does not hit the customer's bank account, particularly in relation to power or communications interruptions which Second Sight alleges can cause one side of a transaction to fail. Post Office has already set out in some detail what happens in relation to power or other communications disruptions and the subject is covered in Second Sight's Part One Mediation Briefing Report. In addition, the issue Second Sight refers to as a "one-sided transaction" is being dealt with separately.
- Likewise with other examples quoted where Second Sight alleges errors have occurred - it is not possible to comment on those in the absence of more detail and the opportunity to properly investigate what happened in those instances. However, assuming that these examples relate to cases in the Scheme, Post Office will investigate them in the normal way.
- In relation to comments made by Post office about challenging regulated and audited entities, this was not meant to be interpreted as meaning those entities would never make administrative errors. The reasoning was simply that such entities are regulated and are required to have systems and processes in place to comply with industry standards. It is, therefore, not wrong of Post Office to assume that those systems and processes work properly unless there is evidence to suggest that they do not.

29 July 2014

Annex 7

HOL help National Lottery Scratchcard returns

Unactivated full packs

When a Scratchcard game is withdrawn, Camelot notifies Parcelforce Worldwide (their contracted courier) of the number of unactivated packs of expired Scratchcard games to be collected from each branch. Camelot will send you a collection bag in which the stock should be despatched. You should complete the form provided by Camelot and attach the label, also provided by Camelot, to the collection bag.

Please remember: You must not place stock that is still activated in the collection bag.

If you have unactivated full packs on hand, and the Parcelforce Worldwide collection officer visits your branch:

- Check the identity of the courier, who will carry a photo ID card
- If you have any doubts about their identity, phone the Camelot Retailer Helpline on **GRO**
- Sign the form (showing the number of packs to be collected) presented by the courier and ask them to sign as proof of the collection

Please note: The Parcelforce Worldwide collection officer will only collect complete unactivated packs. If there are no packs to be collected the courier will complete a nil return. The Camelot Field Sales Executive will not deactivate full or part packs that have been activated.

Keep two copies of the form locally for six months.

Unactivated full packs Accounting

As unactivated packs of expired scratchcards are not part of your value stock, you do not need to account for their withdrawal on the Horizon Online™ system.

Unsold activated stock

The Parcelforce Worldwide collection officer will not collect full activated packs from your branch when a Scratchcard game is withdrawn.

Instructions for the return of any activated stock to Swindon Distribution Centre are published in Operational Focus. When you return this stock as instructed, you must add the activation slip.

Please remember: If the activation slip is not included, Swindon Distribution Centre will return the Scratchcards to the relevant branch and the branch bears the cost of the unsold stock.

If you have lost the activation slip for the stock you are returning:

- Call the NBSC on **GRO**
- Explain which games you do not have an activation slip for.

Unsold activated stock

The NBSC will request:

- your Post Office Branch Code
- your branch Camelot Lottery Retailer number
- the relevant game and number
- the game pack serial number (the first nine numbers of the 12 - digit serial number)

Please remember: The game pack serial number can be found on any of the Scratchcards in the pack and is made up of the following: first three digits: the game number; next six digits: the serial number of the pack (eg 149 - 293847). All nine numbers must be quoted.

The NBSC will phone you back to confirm if you have authorisation to send the stock without an activation slip, or not. If the authorisation is given, the NBSC will provide you with an authorisation reference number.

Please note: Authorisation will be denied if the game was activated after the Post Office Ltd game end date or if the withdrawal deadline date for remitting the stock to Swindon Distribution Centre has passed. The stock must then be removed from the stock unit and the loss made good by the relevant branch.

Please make a note of the authorisation reference number as this number must be recorded against the appropriate game on the Monthly Stock Returns form RS 1, in order that the stock is accepted at Swindon Distribution Centre.

Unsold activated stock

If you have several games to return without activation slips, the NBSC will provide you with a separate authorisation reference number for each authorised game.

Returning Withdrawn Scratchcards

When you need to return Scratchcards to Swindon Distribution Centre you will receive a Monthly Stock Returns form RS 1 (forms must be completed in duplicate, carbon paper will be required).

The following details will be pre-printed on the form when you receive it:

- your Post Office Branch Code
- the name of your branch
- your branch address (including the postcode)
- your telephone number
- the Client Accounting week number when you are due to return your stock

Please note: You should make every effort to return your stock in the specified week. If you miss the return date, for example due to annual leave commitments, you should return it as soon as possible after this date.

Returning Withdrawn Scratchcards

Details of all the value stock items you need to return will also be listed. Again, the following details will be pre-printed:

- the item code (this column has been divided to match the code format on the Swindon Distribution Centre computer system)
- a description of the stock
- the unit of measure
- the value per unit
- Complete table A of the form RS 1 as follows:
 - print your name and sign the form
 - date-stamp the RS 1
 - enter the current Client Accounting week number if you return your stock in a week other than the Client Accounting week specified on the form

Form RS 1: Monthly Stock Returns

Post Office Details: Branch Name, Address, Postcode, Telephone Number.

Client Details: Client Name, Client Address, Client Postcode, Client Telephone Number.

Table A: Enter details of the returned stock below. The unit of measure can be found on the PMS7 notice form.

Item Code	Description	Unit of Measure	Quantity	Value per Unit	Total Value	Return Date
1001	1001	1001	1001	1001	1001	11/1/04
1002	1002	1002	1002	1002	1002	11/1/04

Summary Boxes:

- Table A Total:** £100.00
- Table B Total:** £100.00
- Table C Total:** £100.00
- Table D Total:** £100.00

Return Date: 11/1/04

Please remember: You should make every effort to return your stock in the specified week.

- For each of the items listed, enter:
 - the quantity
 - the total value of each item (if you do not have a particular item that is listed, insert 0.00)

- Enter the total of Table A

Do not add the details of any additional stock items in this table.

When you have completed the Stock Returns Forms RS1:

Enter the stock Remittance onto the Horizon Online™ system and despatch the items from your branch.

The appropriate options are as follows:

Value of scratchcard	Option
£1	Instants £1
£2	Instants £2
£5	Instants £5

Annex 8

Return of non-activated scratchcard games

Your branch should have received a grey pouch with a yellow label from Camelot to return un-activated National Lottery scratchcard packs (the returnable games and numbers are listed in the table to the right). Please follow the instructional guide that comes with the pouch and ensure that you return ALL of these un-activated packs to Camelot by Monday 22nd December 2014.

Failure to do this will result in a financial loss for Post Office.

Please return un-activated packs to Camelot by following the instructions

Return of un-activated scratchcards to Camelot

Pack Number	Game Name
0611	Cool Cash
0575	Quick Cash
0591	Cash Match
0571	Lucky Bug
0552	Cloud 9
0589	Match 3 Tripler
0578	Money Spinner
0583	£100,000
0608	£100,000
0601	Lucky Streak
0604	Cash Rich
0598	£70,000
0597	£250,000
0616	£250,000
0612	Monopoly
0603	Bingo
0600	Bejeweled
0587	£1 Million

- Please make sure you return all un-activated scratchcard packs from the above list to Camelot in the correct grey collection pouch provided by them.
- If you haven't received a grey collection pouch marked "September" please contact the Camelot Retailer Hotline immediately, they will then send out a Black returns pouch with a red label. You MUST return stock in this pouch as soon as you receive this.
- Call Parcelforce on **GRO** to arrange for the collection of un-activated packs.
- If Parcelforce doesn't collect, report this to the Camelot retailer hotline immediately.
- Under NO circumstances should packs be given back to your Camelot Representative.

Please Note: You must proactively sell to exhaustion any activated scratchcards of the closing games until the end date of the pack as any returned activated cards incur a loss to the Post Office.

Annex 9

Initial Complaint Review and Mediation Scheme

Audit Trail on Girobank Deposits

- 1 Summary
 - 1.1 Second Sight has raised a question about whether there is an "audit trail" available in relation to Girobank deposits on Horizon.
 - 1.2 Although Second Sight characterise this as an "audit trail" issue, it is in fact an issue about there being safeguards against branch staff making an error by keying in the wrong figure into Horizon. An audit trail is simply one possible safeguard against this type of error.
 - 1.3 Before 2008, at the end of each day the subpostmaster would rem out the paper paying in slips presented by customers for Girobank deposits. The safeguard being that FSC (via Girobank) would then compare the figures on the paying in slips against the information input on Horizon by branch staff to identify and correct any keying in errors.
 - 1.4 After 2008, the use of paper paying in slips started to be phased out by Girobank and it moved customers to using chip and pin cards. This change was outside of Post Office's control and so there was no way to retain the audit trail presented by paying in slips.
 - 1.5 Post Office implemented a substitute safeguard in that customers were asked to confirm through the chip and pin machine that the figure entered on Horizon was correct.
 - 1.6 In effect, the safeguard of seeking the customer's confirmation of the amount to be deposited was still in place but it moved from being via the paying in slip to via the chip and pin confirmation.
 - 1.7 Post Office considers that its safeguards, both pre and post 2008, against keying in errors in branch are adequate. In any event, this issue only arises where branch staff make the initial keying in error and, as per the terms of the subpostmaster contract, subpostmasters will be liable for any loss that arises as a result of this error. It is an obvious point that, regardless of any safeguards, the best way to manage this risk is for branch staff to be diligent in their work.
 - 1.8 It is noted that the chip and pin method of making deposits into bank accounts without any paper audit trail is industry standard practice in high street banks which have also phased out the use of paying in slips.
- 2 Girobank deposits
 - 2.1 Girobank was the company that provided the banking services behind Girobank deposits. Alliance & Leicester acquired Girobank in 1990 and Santander took over Alliance & Leicester in October 2008. For ease of reference, all three organisations are referred to as "Girobank" in this note. Girobank deposits are deposits of cash into a customer's bank account. They work, for all intents and purposes, like a customer making a deposit of cash into a bank account at any high street bank.

- 2.2 Girobank deposits should not be confused with Green Giro payments. Green Giro payments relate to the payment of benefits to customers. This is an entirely different product and is outside the scope of this note.
- 3 The issue
- 3.1 Second Sight have described their concern as follows:
- 3.1.1 "In mid-2008 the method of processing receipts into Giro Bank accounts was changed. Previously, customers completed a two-part paying-in slip. One copy of the paying-in slip was retained by the customer, another was retained in the branch and cross-referenced to the entry made on Horizon. If, for example, the counter clerk accidentally keyed in £2,000 instead of £200 and did not spot that error immediately then, when the next balance was carried out, Horizon would have reported that there should be £2,000 cash in the safe whereas in fact there was only £200 in it (i.e. there would be a £1,800 cash shortfall).
- 3.1.2 Prior to the mid-2008 processing change, the Subpostmaster would have been able to identify that £2,000 cash had been entered onto the system relating to a customer whom, by cross-checking with the paying-in slip, in fact had only paid in £200. Hence, a correction could have been actioned and the branch's books brought back into balance. In such a case, the apparent cash shortage would have been eliminated because the audit trail enabled the specific cause of the shortage to be identified and corrected.
- 3.1.3 However, after the processing change, paying monies into Giro Bank accounts was actioned via swipe cards and one-part paying in books with no supporting documentation being retained in branch.
- 3.1.4 After that processing change, the counter clerk would swipe the customer's card to access the account details and then key in the cash deposit. After inputting the deposit, the system printed out just one copy of a receipt (which specifically states on it "NOT TO BE RETAINED") and this was then passed back to the customer along with their swipe card.
- 3.1.5 It follows that, if the counter clerk had accidentally input £2,000 instead of £200 into Horizon and did not immediately spot the error, the balance would show an £1,800 difference between the cash holdings on Horizon and the actual cash holdings (as in the previous example). However, after the processing change, there would be no supporting documentation available either to the Subpostmaster, or to Post Office centrally. Therefore neither the Subpostmaster nor the Post Office's central processing unit would be able to check whether or not the cash deposit entries on the system reflected the actual amount of cash that had been deposited."
- 3.2 The process change described above was driven by Girobank. Post Office had no control over the bank's change in the way it conducted its business and could only adapt its processes to accommodate the change. The lack of a paying in slip after 2008 was therefore outside of Post Office's control.

4 Response

4.1 Pre-2008 the process for recording a Girobank deposit was:

- 4.1.1 A paying in slip would be completed by the customer showing the total amount of the deposit and the various denominations of cash that made up that total.
- 4.1.2 The customer would hand over the cash to be deposited which would be counted by the branch staff and checked against the amount on the paying in slip.
- 4.1.3 The amount to be deposited would then be typed into Horizon by the branch staff, the transaction completed and a receipt given to the customer.
- 4.1.4 The paying in slip would be retained in branch until the end of the day when it would be remitted to Girobank via Royal Mail.

4.2 In processing a Girobank deposit, there is a risk that branch staff could key in the wrong deposit amount into Horizon (a Miskey Error). This creates a discrepancy because the amount of money that will be deposited into the customer's account (as per the paying in slip) is different from the amount recorded on Horizon.

4.3 To mitigate this error, Santander would compare the value of the deposits on the paying in slips to the values stated on Horizon. Through this reconciliation process any discrepancies would be notified to FSC. Where there was a discrepancy, FSC would generate a transaction correction back to branch to correct the mistaken Horizon entry.

4.4 If a subpostmaster identified an error, he/she could contact NBSC to highlight the transaction for review during the reconciliation process described above.

4.5 It should be noted that:

- 4.5.1 It was not standard Post Office process for branches to correct Miskey Errors in branch – they should have been reported to NBSC. In fact, in branch corrections could create confusion in the accounts making it difficult for FSC to determine if an error had been corrected. For example, if the Miskey Error was corrected at the end of the day (by reversing the erroneous transaction and putting through a new correct transaction), the Horizon record of the transaction would be correct and match the paying in slip but would not then match the receipt handed to the customer early that day (which would reflect the details of the erroneous transaction). This could then lead to a customer complaint that could be difficult to reconcile with the branch accounts.

- 4.5.2 The above process does not include any check of the cash taken for the Girobank deposits. Indeed, such a check could not be undertaken as the Girobank deposit cash would have been mixed during the day with the branch's general cash holdings. Also, the Girobank slips are typically picked up by Royal Mail at around 5pm, which in most branches would be before that day's cash declaration so the slips would not have been available to help resolve any cash handling error. The only point at which it is possible to check that the correct amount of cash has been taken from the customer is at the point of the transaction.

- 4.6 After 2008, Girobank deposits were processed by way of swipe card or a chip and pin card although paper paying slips were still used by some customers:
- 4.6.1 The customer would either hand the card to the counter clerk to swipe on the Horizon keyboard or place their card into the chip and pin reader and tell the branch staff how much cash they wished to deposit.
 - 4.6.2 The branch would take the cash from the customer and count it to make sure it matched the deposit amount; the branch staff would key in the deposit amount on Horizon.
 - 4.6.3 The chip and pin machine would then display the amount to be deposited (as per the figure keyed into Horizon) and ask the customer to confirm the amount;
 - 4.6.4 The customer would confirm the amount and enter their pin number. The branch staff would then complete the transaction on Horizon.
 - 4.6.5 No paperwork is retained in branch and nothing is remitted to Girobank.
- 4.7 It is noted the post-2008 process described above is the same as operated by all High Street banks conducting bank deposits after those banks phased out paying in slips in favour of chip and pin machines.
- 4.8 Although Second Sight suggests that a lack of an "audit trail" is in itself a problem, Post Office considers that it is more important to understand the holistic risks and safeguards in place – which are different for different products.
- 4.9 For Girobank deposits, the purpose of the pre-2008 paying in slips was to facilitate the processing of payments between Post Office and Girobank. These slips were not designed or used to provide an "audit trail" to assist branches in checking for Miskey Errors at the end of a day – the branch should check that they are keying in the correct amount at the point of conducting a transaction. This is why it was not part of Post Office standard process for branches to correct such errors in branch. The safeguard pre-2008 was the reconciliation process undertaken by Girobank and FSC. .
- 4.10 Post 2008, the safeguard was that the customer would double check the Horizon figure on the chip and pin machine before completing the transaction. Therefore the chance of a Miskey Error going unnoticed was significantly reduced.
- 4.11 In any event, post 2008, the amount recorded on Horizon is the amount credited to the customer's account. Therefore even if the wrong figure was keyed into Horizon, this would match the amount deposited into the customer's account and would not generate a transaction correction to the branch but would result in a discrepancy in the branch accounts if the branch took the incorrect amount of cash from the customer. This however is a cash handling error and not an accounting error (and is therefore outside the "audit trail" issue being raised by Second Sight).
- 4.12 If a customer later complains about the wrong amount being deposited into their account, then this is an issue between the customer, Girobank and Post Office depending on whether the customer has proof of the amount they deposited. In practice, the only evidence the customer may hold is the receipt from Post Office which will validate that the customer confirmed the Horizon recorded figure on the chip and pin machine.

- 4.13 The lack of an audit trail post 2008 as claimed by Second Sight is therefore not a failing of Horizon or Post Office in that Post Office operates an effective safeguard against Miskey Errors in the form of confirmation through the chip and pin machine. In any event, and as noted above, it was outside of Post Office's control to retain the old audit trail of paper paying in slips and this approach to bank deposits is used across the industry.

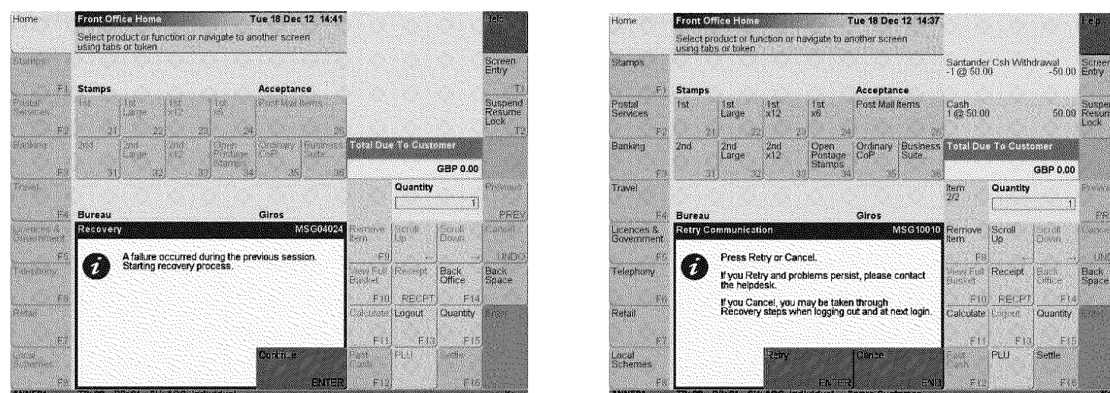
20 October 2014

Annex 10

Horizon Transaction Recovery Guidelines

Background

Sometimes when logging on to the Horizon terminal or during the processing of a transaction, the Horizon terminal screen displays a “Recovery” or “Retry Communication” message to the person working on that particular counter unit.



If the person working on that counter doesn't follow the correct steps when these messages are displayed, this can have a negative impact on the successful completion of a customer's transaction, which may also then impact on the cash and/or stock balance of the branch.

The purpose of this document is to help you understand:

- Why the system displays these messages
- What happens to the transactions that are being or have just been processed when you see these messages
- What you should do when these messages are displayed including what you should tell the customer
- What the information means on any receipts that are printed
- What may happen if the correct procedures aren't followed
- What happens if a system recovery fails
- Where to go for extra help and support when you need it

The document will show you example screen shots from the Horizon system and help you understand what to do in these circumstances.

1. When will a Recovery message be displayed and what does it mean?

A Recovery message will be displayed on the Horizon screen in the following scenarios:

- a) Scenario 1: Someone tries to log onto another Horizon terminal using the same user ID and password whilst they are still logged onto another terminal. This will appear even if the user is trying to attach to a different stock unit.
- b) Scenario 2: The Horizon system loses communication with the relevant data centre during the processing of a transaction due to an incident with the communication line.
- c) Scenario 3: The Horizon system loses communication with the relevant data centre as a result of a power cut.
- d) Scenario 4: An Horizon terminal counter unit has been replaced and the previous user on the counter unit being replaced had not logged out.

When serving a customer, there are certain transactions where the information is sent directly to external data systems during the transaction, and some where no interaction with the data systems happens until the customer session is completed. Those transactions where the information is sent directly to the data systems during the transaction are known as Recoverable transactions and those that aren't are known as either Non-recoverable or Cancellable.

Which transactions are Recoverable?

- Bureau Pre-orders
- Moneygram
- Online Banking Services, including Post Office card account
- E-Top Up
- Reversals (new and existing)
- Postal Orders
- Post Office Payout
- National Savings and Investments
- Drop and Go
- Debit/credit card payments

And those that aren't recoverable

Everything else is known as non-recoverable or Cancellable, including

- All Mails transactions (including labels and the sale of postage stamps)
- Automated Bill payments including DVLA transactions
- Personal banking (does this mean the likes of cheque deposits?)
- Transcash
- Back office transactions other than reversals

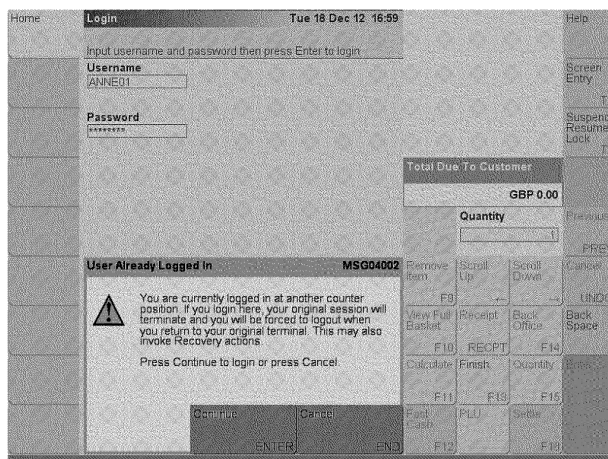
Once the Recovery process starts, there will be different outcomes depending on the type of transaction that the system is trying to recover, and it will depend on what information is printed on the receipt.

- Completed recoverable transactions listed above where a receipt is printed should be settled with the customer – i.e. take payment for an e-top-up
- Transactions which are classed as recoverable but a receipt is not printed are classed as incomplete and therefore should not be settled with the customer – i.e. don't take payment or assume that a banking withdrawal has been processed so don't pay the customer
- Non-recoverable or cancellable transactions should be discarded and the item shouldn't be settled with the customer – i.e. don't give them the stamps or take payment for an AP billpayment

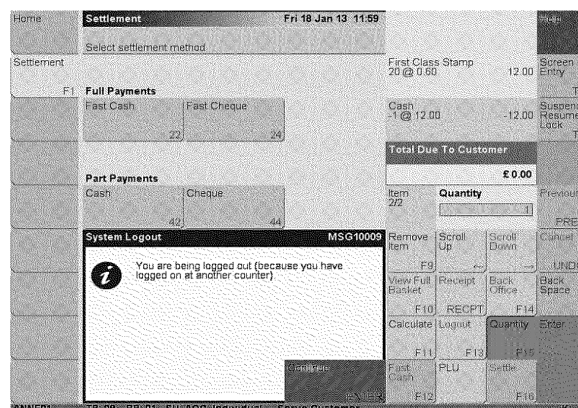
Below are some examples of the different types of scenarios and takes you through what to do in these instances.

2. Scenario 1 – User tries to log onto another Horizon terminal while still logged onto another terminal

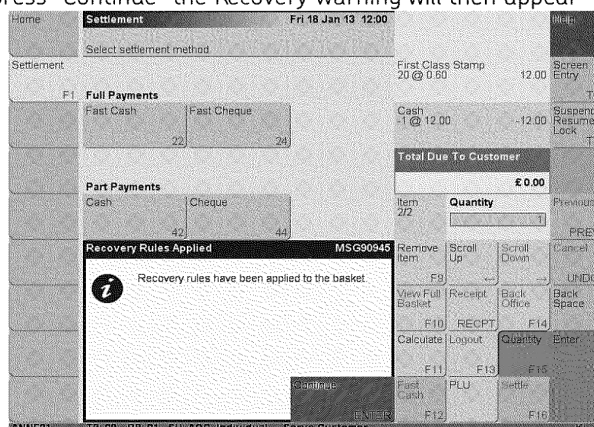
If you or one of your team is logged on to one Horizon terminal and is in the process of selling stamps and an attempt is made to log onto another terminal the following message will appear on the terminal where an additional log on is being attempted:



If you press “Continue”, you can still use the first Horizon terminal but when you come to settle the transaction for the sale of the stamps, the system will automatically log you out and force a transaction recovery. The following message will appear:



and when you press “Continue” the Recovery warning will then appear



Three copies of a disconnected session receipt will be printed. You will see from the receipt below that the stamp transaction has not been completed.

Therefore the stamps should not be given to the customer and payment should not be taken.

```

DISCONNECTED SESSION
Recovery Code: 0120416
Do not attempt to reverse
any transaction from this
session, until this counter
has been successfully
recovered.

1st class stamp
0 0 0.60 0.00

TOTAL DUE TO POST OFFICE 0.00

Cash FROM CUSTOMER 0.00
BALANCE 0.00

Please retain for future reference

Thank You

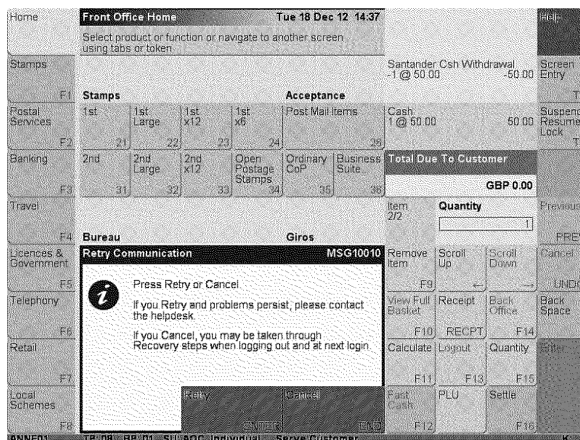
```

Once the receipt has been printed, you or anyone who wants to use this terminal again will need to log-in again and the message below will appear.

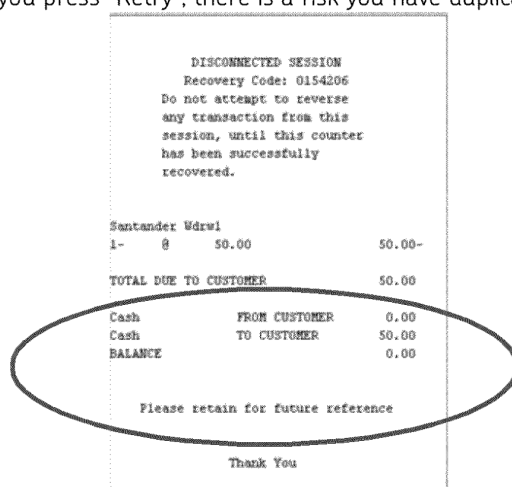
No recovery is needed because the previous transaction was recovered and therefore no receipt will be printed.

3. Scenario 2 – The system loses connectivity (for example where workmen dig through a phone line) if during with the data centre whilst a customer is undertaking a cash withdrawal and the system asks you for the outcome of how you settled the transaction

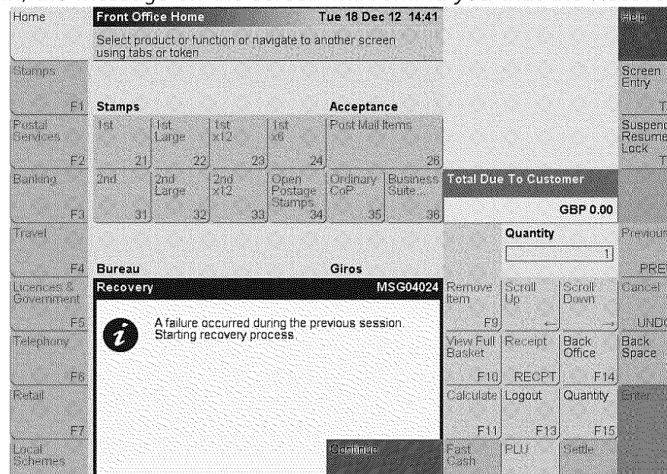
If the Horizon terminal screen shows this message during the transaction, connectivity with the data centre has been lost.



Press "Cancel". In this scenario, the withdrawal will have already been authorised and a receipt will be printed like the one below. It will be called disconnected session receipt which says payment should be made to the customer. If you press "Retry", there is a risk you have duplicated the transaction.



When you log back in, the message on the screen will remind you that the Recover process will start.



In this case, you will be asked what the outcome of the transaction was. For this example, the screen is asking for confirmation as to whether the customer was paid.

Home Front Office Home Tue 18 Dec 12 14:41 Help

The system is recovering the transaction detailed below.
Were funds exchanged with the customer?

History Recovery

F1	Cash Withdrawal	
	GBP 50.00	
	ID:	00-2908-4-1269-1
	PAN	5603 74** **** 9015
	Date/Time	Tue Dec 18 14:34:37 GMT 2012
	SU	AOC
	User	ANNE01

Total Due To Customer
GBP 0.00

Select Yes or No

Yes	No
52	58

Quantity
1

Remove Item Scroll Up Scroll Down Cancel
F9 ← → F10

View Full Basket Receipt Back Office Back Space
F10 RECPT F14

Calculate Logout Quantity
F11 F13 F15

Post Cash PLU Settle
F12 F16

ANNE01 TP: 08 BP: 01 SU: AOC Individual Recovery K:

BE CAREFUL, if you don't know or are not sure STOP and ring for help.

Answer YES or NO

VAT REG No. GB 243 1700 02
Date of Issue: 18/12/2012 14:43
SESSION: 4-15427

Recovery Successful.

Santander Wdrwl
1- £ 50.00 50.00-

TOTAL DUE TO CUSTOMER 50.00

Cash TO CUSTOMER 50.00
BALANCE 0.00

Please retain for future reference

Thank You

VAT REG No. GB 243 1700 02
Date of Issue: 18/12/2012 14:57
SESSION: 4-15430

Recovery Successful.

Santander Wdrwl
1- £ 0.00 0.00

TOTAL DUE TO POST OFFICE 0.00
BALANCE 0.00

Please retain for future reference

Thank You

If you select YES: £50 withdrawal and the cash settlement will be allocated to your branch account.


If you select NO: a reversal communication will be sent to the customer's bank account, if withdrawal had been authorised, and zero-value transaction written to the branch accounts. This means that your branch account will be short by £50 if you have pressed "No" by accident.

4. Scenario 2 – The Horizon system is unable to connect to the data centre and the customer is in the middle of a transaction with both a cash withdrawal (recoverable) and a bill payment (non-recoverable). The system knows the outcome of the recoverable transaction.

If the Horizon system loses connectivity to the data centre, the same Retry Communication message as above will appear on the screen.

Home Front Office Home Fri 18 Jan 13 13:06 CARD ACCOUNT CASH WDL -123.45
Select product or function or navigate to another screen using tabs or token. WDL 1 @ 123.45
Stamps Avon Cosmetics 1 @ 20.00 20.00 Screen Entry
F1 Stamps Acceptance T1
Postal Services 1st 1st Large 1st x12 1st x8 Post Mail Items Cash 1 @ 103.45 103.45 Suspend Resume Lock
F2 21 22 23 24 26 T2
Banking 2nd 2nd Large 2nd x12 Open Postage Stamps Ordinary CoP Business Suite Total Due To Customer
F3 31 32 33 34 35 36 £ 0.00
Travel F4 Bureau Giros
Licences & Government F5 Retry Communication MSG10010
Telephony F6 Press Retry or Cancel.
If you Retry and problems persist, please contact the helpdesk.
If you Cancel, you may be taken through Recovery steps when logging out and at next login.
Retail F7
Local Schemes F8
F9 F10 F11 F12 F13 F14 F15 F16
F17 F18 F19 F20 F21 F22 F23 F24 F25 F26 F27 F28 F29 F30 F31 F32 F33 F34 F35 F36 F37 F38 F39 F40 F41 F42 F43 F44 F45 F46 F47 F48 F49 F50 F51 F52 F53 F54 F55 F56 F57 F58 F59 F60 F61 F62 F63 F64 F65 F66 F67 F68 F69 F70 F71 F72 F73 F74 F75 F76 F77 F78 F79 F80 F81 F82 F83 F84 F85 F86 F87 F88 F89 F90 F91 F92 F93 F94 F95 F96 F97 F98 F99 F100
F101 F102 F103 F104 F105 F106 F107 F108 F109 F110 F111 F112 F113 F114 F115 F116 F117 F118 F119 F120 F121 F122 F123 F124 F125 F126 F127 F128 F129 F130 F131 F132 F133 F134 F135 F136 F137 F138 F139 F140 F141 F142 F143 F144 F145 F146 F147 F148 F149 F150 F151 F152 F153 F154 F155 F156 F157 F158 F159 F160 F161 F162 F163 F164 F165 F166 F167 F168 F169 F170 F171 F172 F173 F174 F175 F176 F177 F178 F179 F180 F181 F182 F183 F184 F185 F186 F187 F188 F189 F190 F191 F192 F193 F194 F195 F196 F197 F198 F199 F200
F201 F202 F203 F204 F205 F206 F207 F208 F209 F210 F211 F212 F213 F214 F215 F216 F217 F218 F219 F220 F221 F222 F223 F224 F225 F226 F227 F228 F229 F230 F231 F232 F233 F234 F235 F236 F237 F238 F239 F240 F241 F242 F243 F244 F245 F246 F247 F248 F249 F250 F251 F252 F253 F254 F255 F256 F257 F258 F259 F260 F261 F262 F263 F264 F265 F266 F267 F268 F269 F270 F271 F272 F273 F274 F275 F276 F277 F278 F279 F280 F281 F282 F283 F284 F285 F286 F287 F288 F289 F290 F291 F292 F293 F294 F295 F296 F297 F298 F299 F300
F301 F302 F303 F304 F305 F306 F307 F308 F309 F310 F311 F312 F313 F314 F315 F316 F317 F318 F319 F320 F321 F322 F323 F324 F325 F326 F327 F328 F329 F330 F331 F332 F333 F334 F335 F336 F337 F338 F339 F340 F341 F342 F343 F344 F345 F346 F347 F348 F349 F350 F351 F352 F353 F354 F355 F356 F357 F358 F359 F360 F361 F362 F363 F364 F365 F366 F367 F368 F369 F370 F371 F372 F373 F374 F375 F376 F377 F378 F379 F380 F381 F382 F383 F384 F385 F386 F387 F388 F389 F390 F391 F392 F393 F394 F395 F396 F397 F398 F399 F400
F401 F402 F403 F404 F405 F406 F407 F408 F409 F410 F411 F412 F413 F414 F415 F416 F417 F418 F419 F420 F421 F422 F423 F424 F425 F426 F427 F428 F429 F430 F431 F432 F433 F434 F435 F436 F437 F438 F439 F440 F441 F442 F443 F444 F445 F446 F447 F448 F449 F450 F451 F452 F453 F454 F455 F456 F457 F458 F459 F460 F461 F462 F463 F464 F465 F466 F467 F468 F469 F470 F471 F472 F473 F474 F475 F476 F477 F478 F479 F480 F481 F482 F483 F484 F485 F486 F487 F488 F489 F490 F491 F492 F493 F494 F495 F496 F497 F498 F499 F500
F501 F502 F503 F504 F505 F506 F507 F508 F509 F510 F511 F512 F513 F514 F515 F516 F517 F518 F519 F520 F521 F522 F523 F524 F525 F526 F527 F528 F529 F530 F531 F532 F533 F534 F535 F536 F537 F538 F539 F540 F541 F542 F543 F544 F545 F546 F547 F548 F549 F550 F551 F552 F553 F554 F555 F556 F557 F558 F559 F560 F561 F562 F563 F564 F565 F566 F567 F568 F569 F570 F571 F572 F573 F574 F575 F576 F577 F578 F579 F580 F581 F582 F583 F584 F585 F586 F587 F588 F589 F590 F591 F592 F593 F594 F595 F596 F597 F598 F599 F600
F601 F602 F603 F604 F605 F606 F607 F608 F609 F610 F611 F612 F613 F614 F615 F616 F617 F618 F619 F620 F621 F622 F623 F624 F625 F626 F627 F628 F629 F630 F631 F632 F633 F634 F635 F636 F637 F638 F639 F640 F641 F642 F643 F644 F645 F646 F647 F648 F649 F650 F651 F652 F653 F654 F655 F656 F657 F658 F659 F660 F661 F662 F663 F664 F665 F666 F667 F668 F669 F670 F671 F672 F673 F674 F675 F676 F677 F678 F679 F680 F681 F682 F683 F684 F685 F686 F687 F688 F689 F690 F691 F692 F693 F694 F695 F696 F697 F698 F699 F700
F701 F702 F703 F704 F705 F706 F707 F708 F709 F710 F711 F712 F713 F714 F715 F716 F717 F718 F719 F720 F721 F722 F723 F724 F725 F726 F727 F728 F729 F730 F731 F732 F733 F734 F735 F736 F737 F738 F739 F740 F741 F742 F743 F744 F745 F746 F747 F748 F749 F750 F751 F752 F753 F754 F755 F756 F757 F758 F759 F760 F761 F762 F763 F764 F765 F766 F767 F768 F769 F770 F771 F772 F773 F774 F775 F776 F777 F778 F779 F780 F781 F782 F783 F784 F785 F786 F787 F788 F789 F790 F791 F792 F793 F794 F795 F796 F797 F798 F799 F800
F801 F802 F803 F804 F805 F806 F807 F808 F809 F810 F811 F812 F813 F814 F815 F816 F817 F818 F819 F820 F821 F822 F823 F824 F825 F826 F827 F828 F829 F830 F831 F832 F833 F834 F835 F836 F837 F838 F839 F840 F841 F842 F843 F844 F845 F846 F847 F848 F849 F850 F851 F852 F853 F854 F855 F856 F857 F858 F859 F860 F861 F862 F863 F864 F865 F866 F867 F868 F869 F870 F871 F872 F873 F874 F875 F876 F877 F878 F879 F880 F881 F882 F883 F884 F885 F886 F887 F888 F889 F890 F891 F892 F893 F894 F895 F896 F897 F898 F899 F900
F901 F902 F903 F904 F905 F906 F907 F908 F909 F910 F911 F912 F913 F914 F915 F916 F917 F918 F919 F920 F921 F922 F923 F924 F925 F926 F927 F928 F929 F930 F931 F932 F933 F934 F935 F936 F937 F938 F939 F940 F941 F942 F943 F944 F945 F946 F947 F948 F949 F950 F951 F952 F953 F954 F955 F956 F957 F958 F959 F960 F961 F962 F963 F964 F965 F966 F967 F968 F969 F970 F971 F972 F973 F974 F975 F976 F977 F978 F979 F980 F981 F982 F983 F984 F985 F986 F987 F988 F989 F990 F991 F992 F993 F994 F995 F996 F997 F998 F999 F1000
F1001 F1002 F1003 F1004 F1005 F1006 F1007 F1008 F1009 F1010 F1011 F1012 F1013 F1014 F1015 F1016 F1017 F1018 F1019 F1020 F1021 F1022 F1023 F1024 F1025 F1026 F1027 F1028 F1029 F1030 F1031 F1032 F1033 F1034 F1035 F1036 F1037 F1038 F1039 F1040 F1041 F1042 F1043 F1044 F1045 F1046 F1047 F1048 F1049 F1050 F1051 F1052 F1053 F1054 F1055 F1056 F1057 F1058 F1059 F1060 F1061 F1062 F1063 F1064 F1065 F1066 F1067 F1068 F1069 F1070 F1071 F1072 F1073 F1074 F1075 F1076 F1077 F1078 F1079 F1080 F1081 F1082 F1083 F1084 F1085 F1086 F1087 F1088 F1089 F1090 F1091 F1092 F1093 F1094 F1095 F1096 F1097 F1098 F1099 F1100
F1101 F1102 F1103 F1104 F1105 F1106 F1107 F1108 F1109 F1110 F1111 F1112 F1113 F1114 F1115 F1116 F1117 F1118 F1119 F1120 F1121 F1122 F1123 F1124 F1125 F1126 F1127 F1128 F1129 F1130 F1131 F1132 F1133 F1134 F1135 F1136 F1137 F1138 F1139 F1140 F1141 F1142 F1143 F1144 F1145 F1146 F1147 F1148 F1149 F1150 F1151 F1152 F1153 F1154 F1155 F1156 F1157 F1158 F1159 F1160 F1161 F1162 F1163 F1164 F1165 F1166 F1167 F1168 F1169 F1170 F1171 F1172 F1173 F1174 F1175 F1176 F1177 F1178 F1179 F1180 F1181 F1182 F1183 F1184 F1185 F1186 F1187 F1188 F1189 F1190 F1191 F1192 F1193 F1194 F1195 F1196 F1197 F1198 F1199 F1200
F1201 F1202 F1203 F1204 F1205 F1206 F1207 F1208 F1209 F1210 F1211 F1212 F1213 F1214 F1215 F1216 F1217 F1218 F1219 F1220 F1221 F1222 F1223 F1224 F1225 F1226 F1227 F1228 F1229 F1230 F1231 F1232 F1233 F1234 F1235 F1236 F1237 F1238 F1239 F1240 F1241 F1242 F1243 F1244 F1245 F1246 F1247 F1248 F1249 F1250 F1251 F1252 F1253 F1254 F1255 F1256 F1257 F1258 F1259 F1260 F1261 F1262 F1263 F1264 F1265 F1266 F1267 F1268 F1269 F1270 F1271 F1272 F1273 F1274 F1275 F1276 F1277 F1278 F1279 F1280 F1281 F1282 F1283 F1284 F1285 F1286 F1287 F1288 F1289 F1290 F1291 F1292 F1293 F1294 F1295 F1296 F1297 F1298 F1299 F1300
F1301 F1302 F1303 F1304 F1305 F1306 F1307 F1308 F1309 F1310 F1311 F1312 F1313 F1314 F1315 F1316 F1317 F1318 F1319 F1320 F1321 F1322 F1323 F1324 F1325 F1326 F1327 F1328 F1329 F1330 F1331 F1332 F1333 F1334 F1335 F1336 F1337 F1338 F1339 F1340 F1341 F1342 F1343 F1344 F1345 F1346 F1347 F1348 F1349 F1350 F1351 F1352 F1353 F1354 F1355 F1356 F1357 F1358 F1359 F1360 F1361 F1362 F1363 F1364 F1365 F1366 F1367 F1368 F1369 F1370 F1371 F1372 F1373 F1374 F1375 F1376 F1377 F1378 F1379 F1380 F1381 F1382 F1383 F1384 F1385 F1386 F1387 F1388 F1389 F1390 F1391 F1392 F1393 F1394 F1395 F1396 F1397 F1398 F1399 F1400
F1401 F1402 F1403 F1404 F1405 F1406 F1407 F1408 F1409 F1410 F1411 F1412 F1413 F1414 F1415 F1416 F1417 F1418 F1419 F1420 F1421 F1422 F1423 F1424 F1425 F1426 F1427 F1428 F1429 F1430 F1431 F1432 F1433 F1434 F1435 F1436 F1437 F1438 F1439 F1440 F1441 F1442 F1443 F1444 F1445 F1446 F1447 F1448 F1449 F1450 F1451 F1452 F1453 F1454 F1455 F1456 F1457 F1458 F1459 F1460 F1461 F1462 F1463 F1464 F1465 F1466 F1467 F1468 F1469 F1470 F1471 F1472 F1473 F1474 F1475 F1476 F1477 F1478 F1479 F1480 F1481 F1482 F1483 F1484 F1485 F1486 F1487 F1488 F1489 F1490 F1491 F1492 F1493 F1494 F1495 F1496 F1497 F1498 F1499 F1500
F1501 F1502 F1503 F1504 F1505 F1506 F1507 F1508 F1509 F1510 F1511 F1512 F1513 F1514 F1515 F1516 F1517 F1518 F1519 F1520 F1521 F1522 F1523 F1524 F1525 F1526 F1527 F1528 F1529 F1530 F1531 F1532 F1533 F1534 F1535 F1536 F1537 F1538 F1539 F1540 F1541 F1542 F1543 F1544 F1545 F1546 F1547 F1548 F1549 F1550 F1551 F1552 F1553 F1554 F1555 F1556 F1557 F1558 F1559 F1560 F1561 F1562 F1563 F1564 F1565 F1566 F1567 F1568 F1569 F1570 F1571 F1572 F1573 F1574 F1575 F1576 F1577 F1578 F1579 F1580 F1581 F1582 F1583 F1584 F1585 F1586 F1587 F1588 F1589 F1590 F1591 F1592 F1593 F1594 F1595 F1596 F1597 F1598 F1599 F1600
F1601 F1602 F1603 F1604 F1605 F1606 F1607 F1608 F1609 F1610 F1611 F1612 F1613 F1614 F1615 F1616 F1617 F1618 F1619 F1620 F1621 F1622 F1623 F1624 F1625 F1626 F1627 F1628 F1629 F1630 F1631 F1632 F1633 F1634 F1635 F1636 F1637 F1638 F1639 F1640 F1641 F1642 F1643 F1644 F1645 F1646 F1647 F1648 F1649 F1650 F1651 F1652 F1653 F1654 F1655 F1656 F1657 F1658 F1659 F1660 F1661 F1662 F1663 F1664 F1665 F1666 F1667 F1668 F1669 F1670 F1671 F1672 F1673 F1674 F1675 F1676 F1677 F1678 F1679 F1680 F1681 F1682 F1683 F1684 F1685 F1686 F1687 F1688 F1689 F1690 F1691 F1692 F1693 F1694 F1695 F1696 F1697 F1698 F1699 F1700
F1701 F1702 F1703 F1704 F1705 F1706 F1707 F1708 F1709 F1710 F1711 F1712 F1713 F1714 F1715 F1716 F1717 F1718 F1719 F1720 F1721 F1722 F1723 F1724 F1725 F1726 F1727 F1728 F1729 F1730 F1731 F1732 F1733 F1734 F1735 F1736 F1737 F1738 F1739 F1740 F1741 F1742 F1743 F1744 F1745 F1746 F1747 F1748 F1749 F1750 F1751 F1752 F1753 F1754 F1755 F1756 F1757 F1758 F1759 F1760 F1761 F1762 F1763 F1764 F1765 F1766 F1767 F1768 F1769 F1770 F1771 F1772 F1773 F1774 F1775 F1776 F1777 F1778 F1779 F1780 F1781 F1782 F1783 F1784 F1785 F1786 F1787 F1788 F1789 F1790 F1791 F1792 F1793 F1794 F1795 F1796 F1797 F1798 F1799 F1800
F1801 F1802 F1803 F1804 F1805 F1806 F1807 F1808 F1809 F1810 F1811 F1812 F1813 F1814 F1815 F1816 F1817 F1818 F1819 F1820 F1821 F1822 F1823 F1824 F1825 F1826 F1827 F1828 F1829 F1830 F1831 F1832 F1833 F1834 F1835 F1836 F1837 F1838 F1839 F1840 F1841 F1842 F1843 F1844 F1845 F1846 F1847 F1848 F1849 F1850 F1851 F1852 F1853 F1854 F1855 F1856 F1857 F1858 F1859 F1860 F1861 F1862 F1863 F1864 F1865 F1866 F1867 F1868 F1869 F1870 F1871 F1872 F1873 F1874 F1875 F1876 F1877 F1878 F1879 F1880 F1881 F1882 F1883 F1884 F1885 F1886 F1887 F1888 F1889 F1890 F1891 F1892 F1893 F1894 F1895 F1896 F1897 F1898 F1899 F1900
F1901 F1902 F1903 F1904 F1905 F1906 F1907 F1908 F1909 F1910 F1911 F1912 F1913 F1914 F1915 F1916 F1917 F1918 F1919 F1920 F1921 F1922 F1923 F1924 F1925 F1926 F1927 F1928 F1929 F1930 F1931 F1932 F1933 F1934 F1935 F1936 F1937 F1938 F1939 F1940 F1941 F1942 F1943 F1944 F1945 F1946 F1947 F1948 F1949 F1950 F1951 F1952 F1953 F1954 F1955 F1956 F1957 F1958 F1959 F1960 F1961 F1962 F1963 F1964 F1965 F1966 F1967 F1968 F1969 F1970 F1971 F1972 F1973 F1974 F1975 F1976 F1977 F1978 F1979 F1980 F1981 F1982 F1983 F1984 F1985 F1986 F1987 F1988 F1989 F1990 F1991 F1992 F1993 F1994 F1995 F1996 F1997 F1998 F1999 F2000
F2001 F2002 F2003 F2004 F2005 F2006 F2007 F2008 F2009 F2010 F2011 F2012 F2013 F2014 F2015 F2016 F2017 F2018 F2019 F2020 F2021 F2022 F2023 F2024 F2025 F2026 F2027 F2028 F2029 F2030 F2031 F2032 F2033 F2034 F2035 F2036 F2037 F2038 F2039 F2040 F2041 F2042 F2043 F2044 F2045 F2046 F2047 F2048 F2049 F2050 F2051 F2052 F2053 F2054 F2055 F2056 F2057 F2058 F2059 F2060 F2061 F2062 F2063 F2064 F2065 F2066 F2067 F2068 F2069 F2070 F2071 F2072 F2073 F2074 F2075 F2076 F2077 F2078 F2079 F2080 F2081 F2082 F2083 F2084 F2085 F2086 F2087 F2088 F2089 F2090 F2091 F2092 F2093 F2094 F2095 F2096 F2097 F2098 F2099 F2100
F2101 F2102 F2103 F2104 F2105 F2106 F2107 F2108 F2109 F2110 F2111 F2112 F2113 F2114 F2115 F2116 F2117 F2118 F2119 F2120 F2121 F2122 F2123 F2124 F2125 F2126 F2127 F2128 F2129 F2130 F2131 F2132 F2133 F2134 F2135 F2136 F2137 F2138 F2139 F2140 F2141 F2142 F2143 F2144 F2145 F2146 F2147 F2148 F2149 F2150 F2151 F2152 F2153 F2154 F2155 F2156 F2157 F2158 F2159 F2160 F2161 F2162 F2163 F2164 F2165 F2166 F2167 F2168 F2169 F2170 F2171 F2172 F2173 F2174 F2175 F2176 F2177 F2178 F2179 F2180 F2181 F2182 F2183 F2184 F2185 F2186 F2187 F2188 F2189 F2190 F2191 F2192 F2193 F2194 F2195 F2196 F2197 F2198 F2199 F2200
F2201 F2202 F2203 F2204 F2205 F2206 F2207 F2208 F2209 F2210 F2211 F2212 F2213 F2214 F2215 F2216 F2217 F2218 F2219 F2220 F2221 F2222 F2223 F2224 F2225 F2226 F2227 F2228 F2229 F2230 F2231 F2232 F2233 F2234 F2235 F2236 F2237 F2238 F2239 F2240 F2241 F2242 F2243 F2244 F2245 F2246 F2247 F2248 F2249 F2250 F2251 F2252 F2253 F2254 F2255 F2256 F2257 F2258 F2259 F2260 F2261 F2262 F2263 F2264 F2265 F2266 F2267 F2268 F2269 F2270 F2271 F2272 F2273 F2274 F2275 F2276 F2277 F2278 F2279 F2280 F2281 F2282 F2283 F2284 F2285 F2286 F2287 F2288 F2289 F2290 F2291 F2292 F2293 F2294 F2295 F2296 F2297 F2298 F2299 F2300
F2301 F2302 F2303 F2304 F2305 F2306 F2307 F2308 F2309 F2310 F2311 F2312 F2313 F2314 F2315 F2316 F2317 F2318 F2319 F2320 F2321 F2322 F2323 F2324 F2325 F2326 F2327 F2328 F2329 F2330 F2331 F2332 F2333 F2334 F2335 F2336 F2337 F2338 F2339 F2340 F2341 F2342 F2343 F2344 F2345 F2346 F2347 F2348 F2349 F2350 F2351 F2352 F2353 F2354 F2355 F2356 F2357 F2358 F2359 F2360 F2361 F2362 F2363 F2364 F2365 F2366 F2367 F2368 F2369 F2370 F2371 F2372 F2373 F2374 F2375 F2376 F2377 F2378 F2379 F2380 F2381 F2382 F2383 F2384 F2385 F2386 F2387 F2388 F2389 F2390 F2391 F2392 F2393 F2394 F2395 F2396 F2397 F2398 F2399 F2400
F2401 F2402 F2403 F2404 F2405 F2406 F2407 F2408 F2409 F2410 F2411 F2412 F2413 F2414 F2415 F2416 F2417 F2418 F2419 F2420 F2421 F2422 F2423 F2424 F2425 F2426 F2427 F2428 F2429 F2430 F2431 F2432 F2433 F2434 F2435 F2436 F2437 F2438 F2439 F2440 F2441 F2442 F2443 F2444 F2445 F2446 F2447 F2448 F2449 F2450 F2451 F2452 F2453 F2454 F2455 F2456 F2457 F2458 F2459 F2460 F2461 F2462 F2463 F2464 F2465 F2466 F2467 F2468 F2469 F2470 F2471 F2472 F2473 F2474 F2475 F2476 F2477 F2478 F2479 F2480 F2481 F2482 F2483 F2484 F2485 F2486 F2487 F2488 F2489 F2490 F2491 F2492 F2493 F2494 F2495 F2496 F2497 F2498 F2499 F2500
F2501 F2502 F2503 F2504 F2505 F2506 F2507 F2508 F2509 F2510 F2511 F2512 F2513 F2514 F2515 F2516 F2517 F2518 F2519 F2520 F2521 F2522 F2523 F2524 F2525 F2526 F2527 F2528 F2529 F2530 F2531 F2532 F2533 F2534 F2535 F2536 F2537 F2538 F2539 F2540 F2541 F2542 F2543 F2544 F2545 F2546 F2547 F2548 F2549 F2550 F2551 F2552 F2553 F2554 F2555 F

Once the receipts have been printed and you are asked to log back in, the Recovery message will appear.

Home	Front Office Home Fri 18 Jan 13 13:11										Help	
Select product or function or navigate to another screen using tabs or token												
Stamps	<div> <div> F1 Stamps </div> <div> Acceptance </div> </div>											Screen Entry
Postal Services	1st	1st Large	1st x12	1st x6	Post Mail Items						T1	
F2	21	22	23	24	26						T2	
Banking	2nd	2nd Large	2nd x12	Open Postage Stamps	Ordinary CoP	Business Suite	Total Due To Customer					
F3	31	32	33	34	35	36	£ 0.00					
Travel							Quantity		Previous			
F4	Bureau						Giros		PREV			
Licences & Government	Recovery MSG04024						Remove Item	Scroll Up	Scroll Down	Cancel		
F5	 A failure occurred during the previous session. Starting recovery process.						F9	←	→	UNDO		
Telephony							View Full Basket	Receipt	Back Office	Back Space		
F6							F10	RECPT	F14			
Retail							Calculate	Logout	Quantity	Enter		
F7							F11	F13	F15			
Local Schemes							Fast Cash	PLU	Settle			
F8							F12	F16				
ANNE01 TP:09 BP:01 SU:AOC Individual K:												

If the system knows the outcome of the transaction which has just been recovered, it will not ask you for confirmation but will print an automatic "Recovery Successful" receipt.

VAT REG No. GB 243 1700 02		
Date of Issue: 18/01/2013 13:12		
SESSION: 13-12050		
Recovery Successful.		
CA CASH WDL		
1- 0	123.45	123.45-
TOTAL DUE TO CUSTOMER		123.45
Cash	TO CUSTOMER	123.45
BALANCE		0.00
Please retain for future reference		
Thank You		

Once the recovery has been completed and the customer is still at the counter, they can then pay the bill as a new transaction and payment will need to be taken.

5. Scenario 3 – The Horizon system loses connectivity with the data centre due to a power cut. The bill payment has been settled by debit card which has been authorised but the power cut happens before the branch receipt has been printed.

In this instance, no Disconnected Session receipt has been printed and therefore the transaction is classed as incomplete.

You must make it clear to the customer that:

- The bill has not been paid
- The debit card will be refunded (but this may not be instant)

Once the power is restored and the Horizon terminal restarts, when you next log in, the standard Recovery message will appear.

An automatic system correction will be initiated and a receipt like the one below will be printed.

This is telling you that the Bill has not been paid and the customer will be automatically refunded on their debit card.

No action required, but please don't give any cash to the customer.

6. Scenario 4 – The Horizon terminal has been replaced and the user on the old counter has not logged out

Whoever attempts to log on following the replacement of the counter unit will see the Recovery message on the screen.

The screenshot shows the 'Front Office Home' screen with a 'Recovery' message box in the center. The message reads: 'A failure occurred during the previous session. Starting recovery process.' The message box has a red 'i' icon. The background shows various service categories like Stamps, Acceptance, Bureau, and Giros, along with a 'Total Due To Customer' section showing 'GBP 0.00'. The bottom status bar indicates 'ANNED1 TP:08 BP:01 SU:AOO Individual'.

You will be asked if you have a Disconnected Session receipt for the last transaction which happened on the terminal.

The screenshot shows the 'Front Office Home' screen with a question: 'Is a recovery receipt available?'. Below the question are two buttons: 'Yes' and 'No'. The 'No' button is highlighted. The background shows the same service categories as the previous screen. The bottom status bar indicates 'ANNED1 TP:08 BP:01 SU:AOO Individual'.

In most instances there will not be a receipt available. When you press "No", the following screen will appear. You will be asked if the previous session was successful.

The screenshot shows the 'Front Office Home' screen with a table of transaction history. The table has columns: Txn ID, Txn Date, Title, Volume, and Value. The transactions are:

Txn ID	Txn Date	Title	Volume	Value
2	18/12/12	Second Class Stamp	100	GBP 50.00
3	18/12/12	Cash	-1	-GBP 50.00

Below the table, there are buttons for 'Page Up', 'Page Down', and 'Page 1/1'. At the bottom, there is a question: 'Was this session successful?' with 'Yes' and 'No' buttons. The 'No' button is highlighted. The background shows the same service categories as the previous screen. The bottom status bar indicates 'ANNED1 TP:08 BP:01 SU:AOO Individual'.

If you select “No” to say the session wasn’t successful, the Horizon system will undertake an automatic System Correction. In this instance, if the last transaction you did was sell 100, 2nd class stamps, then it will reverse this transaction out of you branch account. If you had completed the transaction with the customer, then your stock of 2nd class stamps would be down by 100 and your cash would be over by £50.

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VAT REG No. GB 243 1700 02
Date of Issue: 18/12/2012 15:55
SESSION: 4-15448

Recovery Successful.
System Correction

2nd class stamp
100- 0 0.50 50.00-

TOTAL DUE TO CUSTOMER 50.00

Cash TO CUSTOMER 50.00
BALANCE 0.00

Please retain for future reference

Thank You

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Therefore a correction to adjust the stock may be required if this has happened.

7. What should you do if you are undertaking a DVLA transaction if the Recovery process starts?

DVLA licencing transactions are classed as Automated Payment Services and therefore these are cancelled during the Recovery process following a system failure and the Method of Payment is reversed.

If you experience a system failure during an MVL transaction you must not, under any circumstances issue a tax disc to the customer.

- Retain the tax disc to be spoiled, and spoil it as soon as the system is restored
- Read Disconnected Session Receipts and hand one copy to the customer with their paperwork, retain the second receipt in the till and attach the 3rd receipt to the Horizon screen terminal so the person performing the recovery knows what transaction failed.
- Return any payment by cash or cheques to the customer, and if they have paid by debitcard, inform them that their card will automatically be refunded
- If you have given the customer the tax disc by mistake, it will not be valid and the customer will receive a continuous registration penalty letter for failure to relicense or SORN their vehicle. When the customer then produces the tax disc as evidence for their case, the DVLA notify the Finance Service Centre (FSC) that a disc has been issued without being scanned onto the Horizon On-line system.
- FSC investigate and issue a Transaction Correction to the relevant branch for the full amount of the tax payable (please be mindful that this could be for the price of an HGV disc in the future).
- NOTE: If the method of payment was by cash or cheque and retained during the failure, you will be able to associate the gain incurred at the time of recovery with the loss generated by the Transaction Correction. If however a debit card (or in the future credit card) was accepted, the card will be refunded as part of the recovery procedure and you will have to stand the loss when a Transaction Correction is processed.

8. The E Top Up Scenario.

Note that a similar scenario applies to any Recoverable transaction where the customer has to give money to Post Office Ltd.

In such cases, it is the clerk's responsibility to ensure that the customer is able to pay for a transaction before they process the E Top up or Deposit. If the customer is offering to pay for it with a Debit or Credit card (plastic), then this is not possible, since the E Top Up has to be added to the basket before processing the plastic payment.

This then gives rise to the following scenario:

1. Request an E Top Up (£10 say)
2. E Top Up successful
3. Communication line fails
4. Attempt to settle using plastic
5. Payment fails
6. Request customer pays cash
7. Customer has no cash

If the plastic payment had been declined, and communication lines are OK, then the way to progress is to do an ETU Reversal on a different counter and settle to cash and use this cash to settle the basket.

However if communication lines are down, the system will expect the session to be settled to cash and so the branch will be out of pocket by £10 unless they can do the reversal on a different counter (unlikely if communication lines are down)

If you are unable to resolve the incident with these instructions, please contact the Network Business Support Centre (NBSC).

9. What if recovery fails?

Below are some examples of what the receipts will look like if the Recovery process fails.

```
DISCONNECTED SESSION
Recovery Code: 2955958
Do not attempt to reverse
any transaction from this
session, until this counter
has been successfully
recovered.

Co-op Cash wdr1
1- @ 50.00 50.00-

TOTAL DUE TO CUSTOMER 50.00

Cash FROM CUSTOMER 0.00
Cash TO CUSTOMER 50.00
BALANCE 0.00

Please retain for future reference
Thank You
```

```
VAT REG No. GB 243 1700 02
Date of Issue: 09/07/2012 12:50
SESSION: 2-295597

Recovery Failed.

TOTAL DUE TO POST OFFICE 0.00
BALANCE 0.00

Please retain for future reference
Thank You
```

All these failures are monitored and investigated automatically by Fujitsu, but you should also report them to the Network Business Support Centre (NBSC).

In the event of any confusion, retaining documentation is the key. Please keep a record of any reference numbers, transaction details and the action or advice taken.

10. Helpful hints and tips and where to go for support

- Avoid logging on to more than one counter at once with same user name Create a second user name ID if you regularly use another counter – i.e for processing large numbers of mails transactions. Please remember you must not share these user IDs and passwords.
- If there's a Disconnected Session Receipt, settle with the customer in line with what it says KEEP A NOTE OF CASH
- Make a note of what you did, in case there are recovery questions
- If counter has to be replaced and user hadn't logged out, make a note of the last successful session

Hints and tips –awaiting recovery

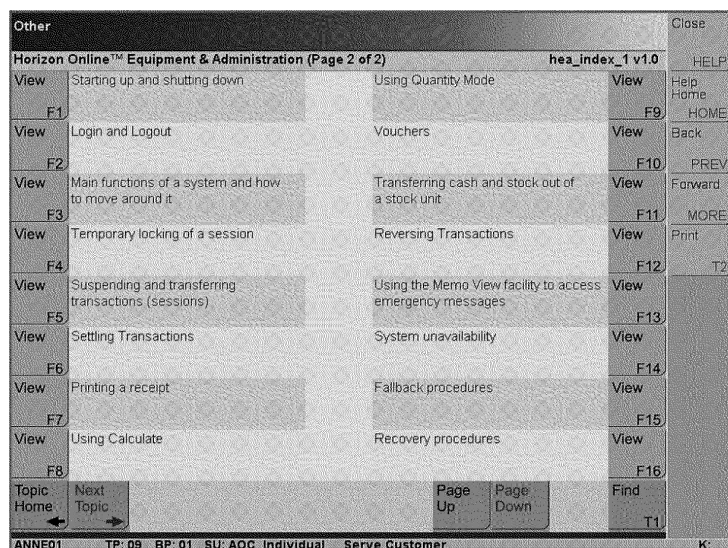
- Don't use Transaction Log search to check the outcome of the failed session until recovery is complete as it won't appear until fully complete.
- Don't try to reverse transactions from the failed session
- Don't use the customer's account balance to check the outcome as there could be a delay in the refund.
- Don't put transactions through again unless recovery is complete.
- You may have a cash variance. The stock unit can't be balanced until the recovery has completed Stock volumes may require correcting.
- Do log on to all counters with failed sessions as soon as possible (once the system seems stable)

Hints and tips –in recovery

- Use the Disconnected Session receipt, or notes made when the counter failed, to help answer recovery questions (if any)
- If a different colleague is likely to be using the counter, make sure they have this information
- Once recovery is complete, you can use Transaction Log to search if needed
- Contact NBSC if the outcome doesn't match what you did and it is not something you can reverse / put through again
- If recovery fails, this will be automatically investigated, but you should inform NBSC

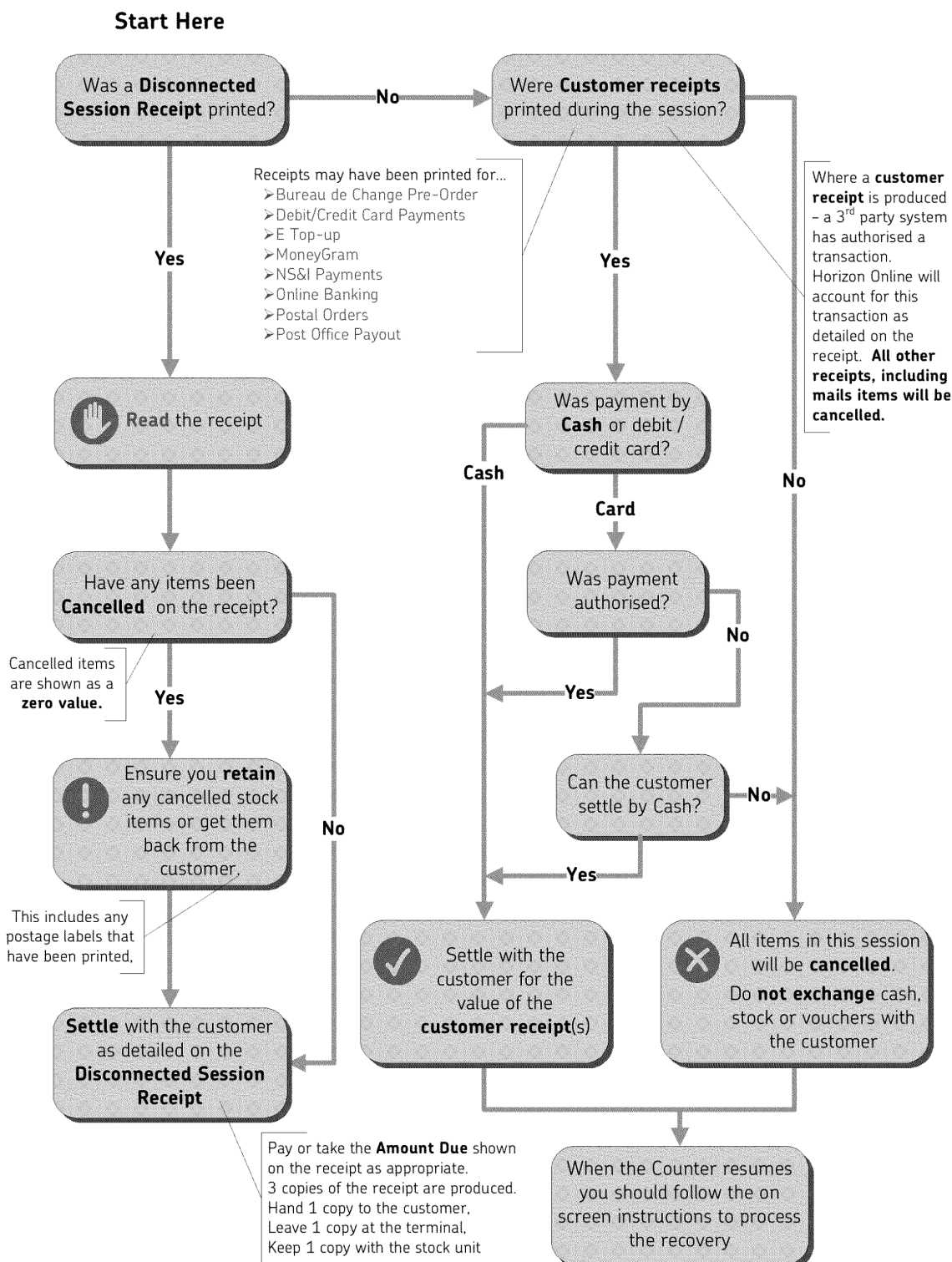
Full details of Horizon On-line system failures and recovery procedures can be found in subsection 36 and 37 of the Horizon Online™ equipment and administration operations manual.

Information can also be found on Horizon on-line help by going to Home, F10, F6, and paging Down



What to do when a Horizon Online counter is unable to connect to the Data Centre or becomes unavailable due to Screen Freeze

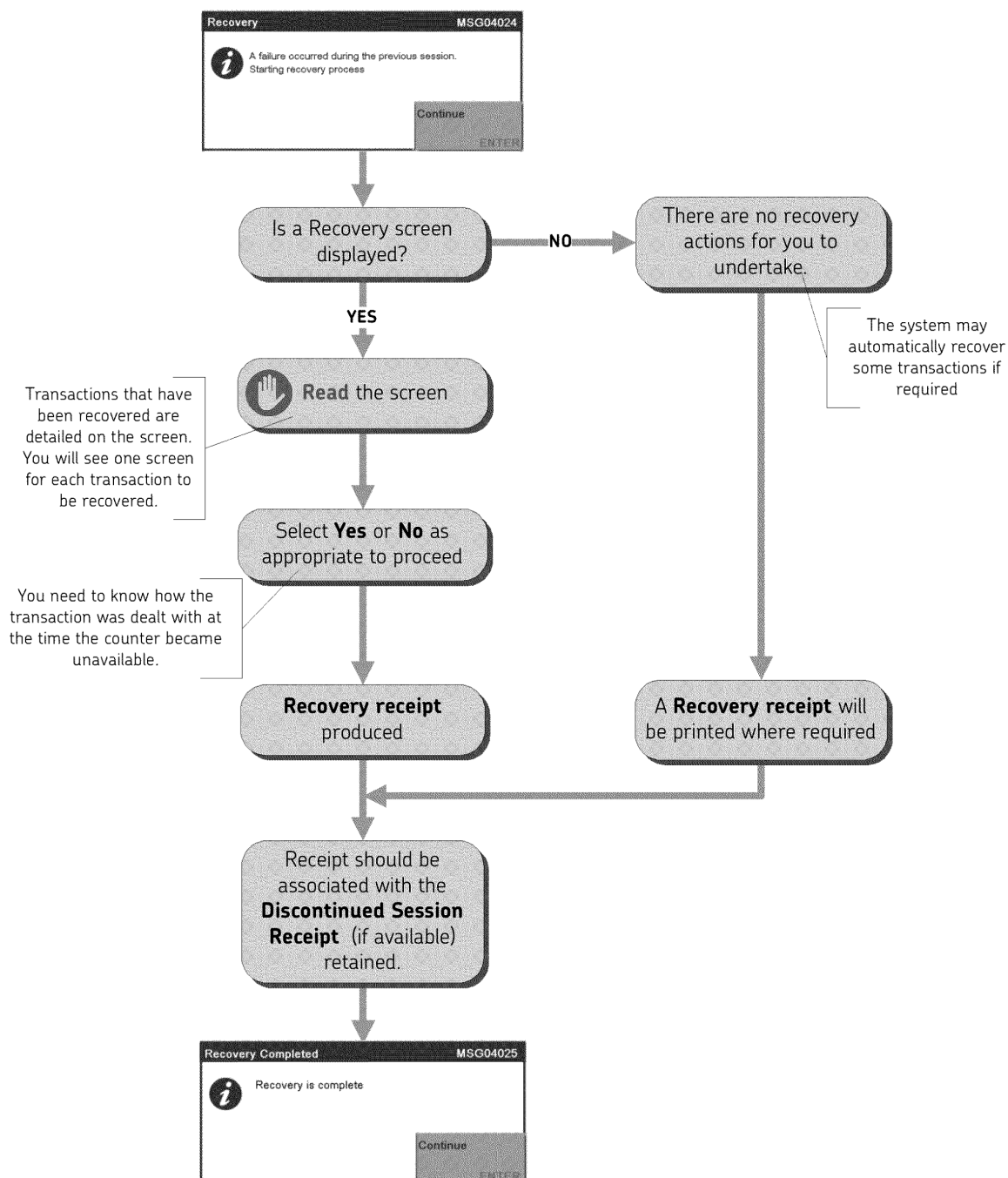
To ensure that you are able to deal correctly with any outage while the customer is still present in the branch you should familiarise yourself with this process.



Recovery - What to do when Horizon Online connectivity is restored

The diagram below provides a simplified view of the generic approach to recovering a counter that has forced a user logout from the system following an unexpected outage.

The key point to remember is that you need to **ensure you do the right thing at the time the counter becomes unavailable**.



Annex 11

Initial Complaint Review and Mediation Scheme

One sided transactions – "something for nothing"

1 Summary

- 1.1 Second Sight has raised a question about whether it is possible for there to be a "one sided transaction" where a customer receives a benefit without having to pay for it which in turn either (1) causes a discrepancy in a branch's accounts and/or (2) creates a loss that is passed on to a branch (for short this has been referred to as the "something for nothing" issue).
- 1.2 As Second Sight has been unable to identify any general issue with Horizon that could give rise to this situation, it has put forward an example from an Applicant's CQR. As described in more detail below, in this example, a customer attempted on several occasions to make a cash deposit into her bank account. Although, the branch Horizon terminal recorded that the transaction failed multiple times and only completed once, the customer's bank account was credited on 3 occasions.
- 1.3 Post Office's review has determined that Horizon operated correctly and that no discrepancy was caused in the branch's accounts nor was any loss passed to the branch.
- 1.4 It is of course possible that any data being transmitted over the internet may not be received by the recipient. It is therefore possible that Horizon may not be able to contact a customer's bank's IT systems (and vice versa) in order to complete a deposit transaction.
- 1.5 However, every night there is a reconciliation between the bank deposit transactions recorded on Horizon and those processed by a customer's bank. From this information, the bank corrects any mistaken deposits it has made into a customer's account which have not been recorded on Horizon. Post Office is not responsible if the customer's bank does not take this corrective action or does not do so promptly. This error is never corrected by the discrepancy being passed back to a branch by way of a transaction correction.
- 1.6 From a branch's perspective no discrepancy will arise from this situation as the branch accounts will have recorded only the completed deposits and cash will only have been taken from customers for those completed deposits. The branch will therefore be in balance.
- 1.7 Although this briefing only deals with the example put forward by Second Sight, it reflects the approach that Post Office takes to this issue in relation to other products. It is therefore confident that the "something for nothing" issue cannot be the cause of discrepancies in a branch's accounts or a source of losses for subpostmasters.

2 The issue

- 2.1 Second Sight has provided the following example which it has asked Post Office to investigate:

"In this instance, the benefitting customer was also the SPMR so would only have benefitted at her own expense thus having no incentive to keep quiet. Nonetheless, it serves as an example of the phenomenon.

As you may recall, in this example the SPMR asked a clerk to pay £300 in for her and she was credited with that amount three times over. POL initiated one reversal, but the SPMR herself, as we understand it, had to action the other reversals in order to correct the position.

Our point all along has been that, when a customer gets nothing for something (e.g. if he/she pays a Utility bill and gets debited with the cost of doing that, but the bill doesn't get paid, then there exists a very effective secondary error detection control (they'll get a Final Demand from the Utility Company). There is, on the other hand, no such secondary error detection control in the case of one-sided transactions that benefit customers (the bill gets paid but they don't pick up the cost: the SPMR does). " ¹

3 Response

3.1 When a customer wishes to deposit cash into their bank account at a Post Office branch, the processing sequence on Horizon is as follows:

- 3.1.1 The customer hands the cash to the subpostmaster (or assistant) who counts the cash and enters the amount to be deposited on Horizon.
- 3.1.2 The customer enters their bank card into the chip and pin machine or the card is swiped on Horizon by the branch staff. The amount to be deposited is shown on the chip and pin machine and the customer confirms the amount of the deposit.
- 3.1.3 Horizon then sends the (encrypted) transaction details to the customer's bank over the internet.
- 3.1.4 If the bank accepts the deposit, it sends a message back to the Horizon terminal confirming that the deposit is accepted.
- 3.1.5 Horizon then informs the subpostmaster that the transaction is completed, prints a receipt for the customer and records the transaction as completed in the branch accounts.

3.2 The branch terminal may not record the confirmation message from the customer's bank for a number of reasons:

- 3.2.1 The bank may not accept the deposit;
- 3.2.2 There may be an error in the bank systems such that the confirmation message is not sent;
- 3.2.3 There may be issue with the third party network connection between Horizon and the bank such that the transaction details are never received by the bank (in which case the transaction would fail totally with no funds being deposited at all);

¹ Email from Ron Warmington to Angela Van Den Bogerd on 23 July 2014. Second Sight has also provided Post Office with the case details from which this example is taken but this information has been omitted from this briefing in order to protect the Applicant's privacy.

- 3.2.4 There may be issue with the third party network connection between the bank and Horizon such that the confirmation message from the bank does not reach the branch terminal;
 - 3.2.5 The customer could remove their card from the chip and pin machine before the confirmation is received; or
 - 3.2.6 The branch staff could terminate the transaction on Horizon before the confirmation is received.
- 3.3 All of these reasons are outside of Post Office's control. If the confirmation message is not received within a set period of time, the branch terminal assumes that the transaction has failed and this is displayed on screen to the user. The user may then either return the cash to the customer or retry the transaction. Either way, the attempted cash deposit will be recorded in the Horizon transaction logs as a failed transaction and nothing will have changed in the branch accounts.
- 3.4 In the 4th scenario above (and possibly the 2nd, 5th and 6th scenarios), the customer's bank will have processed the cash deposit into the customer's account before the point of failure which causes the confirmation message not to be received by the branch Horizon terminal. This occurs notwithstanding that Horizon will have subsequently and correctly recorded the transaction as failed.
- 3.5 To correct for this error in the bank's records, every night a file is sent from Post Office to the client bank listing all the deposits recorded on Horizon across the entire Post Office network. The client bank then reconciles this data against the deposits it has made into customers' accounts. If it finds that the bank has made a deposit where Horizon records a failed transaction, the bank will take corrective action, usually by withdrawing the deposited funds from the customer's account.
- 3.6 Critically, Post Office is not liable for the bank's error in making a mistaken deposit and no transaction correction is generated going back to the branch for this error. Indeed, the branch accounts are perfectly correct as the branch will have only taken cash from customers where transactions are confirmed as completed on Horizon.
- 4 Application to the specific example
- 4.1 In the example highlighted by Second Sight, Fujitsu has confirmed that there were recorded network difficulties on 15 January 2013 from 13:39 to 17:00 which covers the time of the transactions which took place between 15:35:55 and 17:00:04 (the last transaction being the successful one).
- 4.2 The transaction data² shows that:
- 4.2.1 6 attempts were made to deposit £300 into a bank account;
 - 4.2.2 The first 5 attempts failed and are recorded by the branch logs as having failed;

² This data will be provided to Second Sight separately with the Post Office Investigation Report into the relevant case but is not enclosed with this briefing to protect the privacy of the Applicant in the example.

- 4.2.3 The final attempt is recorded as being successful.
- 4.3 The transaction data therefore supports the Applicant's version of events but also proves that there was no error in the branch's accounting and cash positions (as the branch accounts recorded one successful deposit of £300 and the branch took from the Applicant £300 in cash). For the sake of clarity, there was no subsequent transaction correction in relation to these transactions.
- 4.4 Post Office cannot verify if 3 deposits were made into the customer's account as this information is held exclusively by the customer's bank. However, assuming that the 3 deposits did in fact occur, this pattern of events is consistent with a scenario in which the first 5 confirmation messages were lost in transit from the bank to Horizon due to the network difficulties.
- 4.5 In line with normal procedure, the overnight data file was sent to the customer's bank. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank. Post Office cannot however confirm this as it does not control the bank's corrective procedures: that is a matter between the bank and its customer.
- 5 Second Sight's specific comments
- 5.1 Second's Sight's statement in the quoted example that "POL initiated one reversal, but the SPMR herself, as we understand it, had to action the other reversals in order to correct the position " is not understood.
- 5.2 Neither Post Office nor Horizon generates reversals of this nature. If the deposit transaction does not complete (because the confirmation message is not received) the transaction will be recorded as failed on Horizon. This is not a reversal because there was no completed transaction to reverse.
- 5.3 Once the confirmation message is received at the terminal, the user is asked to confirm that the deposit should be completed. If the user declines the deposit at that stage, it is shown as cancelled in the branch logs and not added to the basket on Horizon – there is therefore no transaction to reverse on Horizon. However, Horizon does send a message to the customer's bank confirming that the previously confirmed deposit did not in fact complete at the counter and needs to be reversed at the bank's end.
- 5.4 If the user accepts the deposit, it is recorded in the basket and from that point forward cannot be cancelled or reversed. This is because the deposit will already have been credited to the customer's bank account. The branch would need to contact NBSC to seek their assistance in correcting any error in the transaction.
- 5.5 As with the situations described above, whichever option is selected at the counter, the branch accounts remain in balance as the record on Horizon will reflect the amount of cash taken (or not) from the customer.
- 5.6 The view that there is no "secondary error detection control in the case of one-sided transactions that benefit customers" is incorrect. As described above, the overnight data file is used to identify and correct any errors. In any event, these errors will not cause any discrepancy in the branch's accounts.

- 5.7 The claim that, where there is a one-sided transaction, customers "don't pick up the cost: the SPMR does" is incorrect. For the reasons stated above, deposit errors in the bank's records are not reflected in the branch's accounts and are never passed back to a branch.

20 October 2014

Annex 12

Postal Services - Postage Labels

Spoiled Labels (Page 1 of 3)

pl_spo_labels v1.0

All Horizon Online postage labels now have extra code characters printed on them for the spoilt postage label accounting process. These codes will need to be entered onto Horizon Online to process a spoilt label. The codes ensure the label being spoilt is correctly accounted for by product and VAT type.

Royal Mail labels

A one code character (**a letter**) will appear at the end of the Royal Mail line of the label, the other code character (**a number**) will appear at the end of the Postage Paid line.

Parcelforce Worldwide labels

Similar to the Royal Mail arrangement except that both the code character at the end of the Parcelforce line and the one at the end of the Postage Paid line are numbers.

Counter Procedure

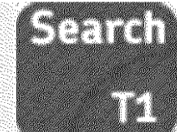
The new Spoilt Postage Label process is accessed via the **[Spoilt Label]** button on the **Postal Services [F1]** Home screen. The onscreen prompts will let you know what information you need to input.

A label can only be spoilt if the label is on hand (Horizon Online will remind you of this when you select the Spoilt Label button).

When you have selected **Spoilt Label [83]**, you're prompted to select the carrier **[Royal Mail]** or **[Parcelforce]** named on the label, then the first code character on the label (a letter for Royal Mail, a number for PFW).

You will only be asked to select the second code character where there is more than one possible option.

Page Down to continue



Postal Services - Postage Labels

Spoiled Labels (Page 2 of 3)

pl_spo_labels1 v1.0

Horizon Online will summarise the entries you have made and ask you to confirm if they are correct. (see image on right).

You will then be asked to write "SPOILT" across the label, add it to the printed system receipt and store these safely in branch for two years.

The credit value due to the customer should normally be used to transact a new label of the appropriate type. **Only in exceptional circumstances should a cash refund to the customer be necessary.**

Reconciliation process

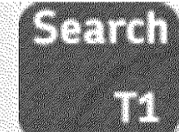
Spoilt Postage Label transactions will need to be reconciled by each VAT transaction type using the **second** code printed on the Horizon Online Label.

On the Balance Snapshot report, Spoilt labels will be totalled by VAT type and include the 2nd code from the label. Any labels spoilt under the old Horizon Online process are grouped under Miscellaneous.

If the total value of Spoilt Postage Labels on hand is less than the value shown on the Balance Snapshot report, you will need to use the new Spoilt Postage Label Reconciliation process to correct the value for each VAT transaction type.

The new reconciliation transaction is initiated via the Spoilt Label button [61] under Reconciliation on the Other Postal Services screen.

Page Down to continue



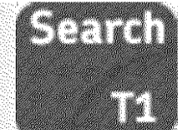
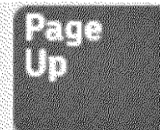
Postal Services - Postage Labels

Spoiled Labels (Page 3 of 3)

pl_spo_labels2 v1.0

- Horizon Online will remind you to have a balance snapshot report on hand before proceeding
- You will be asked to select a carrier to reconcile [Royal Mail] or [Parcelforce], you will then be asked to select the VAT type you wish to reconcile for that carrier
- You will be asked to enter the value for this carrier and the VAT type from the balance snapshot report
- You will then be asked to enter the total value of spoilt postage labels on hand for this carrier and VAT type
- Horizon Online will display a comparison of the balance snapshot value and the on hand value. Where the on hand figure entered is less than the balance snapshot, you will be asked to confirm the adjustment

Please note: should the on hand figure entered be more than the balance snapshot you will be asked to add any unprocessed labels using the Spoilt Label button. The reconciliation will then be abandoned.



Annex 13

POST OFFICE LTD[®]**Customer Feedback Questionnaire**

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the training activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

My Training**Type of training:**

(please select one box)

Classroom ☐Onsite ☐*Please select one box only for each of the following questions..*

1. How suitable was the classroom environment and the equipment (if applicable)?

Up to
25%☐Up to
50%☐Up to
75%☐Up to
100%☐

2. How effective was the content of your classroom/on-site training?

☐☐☐☐

3. How confident are you that using the customer sales conversations will help you to maximise your income opportunities?

☐☐☐☐

4. How confident do you feel processing mails products & services?

☐☐☐☐

5. How confident do you feel that the training received will enable you to deliver excellent customer service?

☐☐☐☐

6. How confident do you feel in processing daily 'Back Office' tasks?

☐☐☐☐

7. How confident do you feel in your ability to prepare the branch balance (Stock Unit and/or Branch Trading Statement)?

☐☐☐☐

8. How effective was the training in helping you to find and rectify any discrepancy?

☐☐☐☐

9. To what extent did the training meet your expectations?

☐☐☐☐

If you have marked any of your answers 'Up to 25%' or 'Up to 50%' please tell us why in the comments section below

Please comment on the overall experience

POST OFFICE LTD[®]

Customer Feedback Questionnaire

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the training/audit/support activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

Your Name	Branch Name
-----------	-------------

Branch Code: Field Advisor Code: Date: / /

Branch Type: (please select one box) PO Local ☐ Main ☐ Community ☐ Core & Outreach ☐ Crown ☐

My Field Support Advisor

Please select one box only for each of the following questions..

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The Field Support Advisor introduced themselves and explained the purpose of the activity and the times of attendance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The Field Support Advisor was polite and approachable and behaved in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The Field Support Advisor was knowledgeable and answered questions relating to the visit in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The activity was delivered in an organised, focused and logical way	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The Field Support Advisor regularly checked my understanding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I feel confident that the Field Support Advisor was well prepared and competent to support me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The Field Support Advisor was wearing career/business wear and was neat and tidy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have marked any of your answers 'Disagree' or 'Strongly Disagree' please tell us why in the comments section below

Please comment on the overall experience

Annex 14

POST OFFICE LTD[®]**Customer Feedback Questionnaire**

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the support activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

My Support Activity

My Support Activity:
(please select one box)

Post Transfer Visit ☐ Accounting ☐ Training ☐ Branch Standards ☐

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. The date and time of the visit was agreed in advance | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. The purpose of the visit was clarified in advance? | <input type="checkbox"/> | <input type="checkbox"/> |

Please select one box only for each of the following questions..

- | | Up to 25% | Up to 50% | Up to 75% | Up to 100% |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 3. How confident do you feel that the support received will enable you to deliver your role effectively? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. How effective was the support you received in resolving your issue and informing you of any appropriate next steps? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To what extent did the support meet your expectations? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- | | Mails Compliance | Dangerous Goods | Accessibility |
|--|--------------------------|--------------------------|--------------------------|
| 6. Which of the following areas were discussed during the audit
(select all that apply) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you have marked any of your answers 'Up to 25%' or 'Up to 50%' please tell us why in the comments section below

Please comment on the overall experience

POST OFFICE LTD[®]

Customer Feedback Questionnaire

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the training/audit/support activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

Your Name	Branch Name
-----------	-------------

Branch Code: Field Advisor Code: Date: / /

Branch Type: (please select one box) PO Local ☐ Main ☐ Community ☐ Core & Outreach ☐ Crown ☐

My Field Support Advisor

Please select one box only for each of the following questions..

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The Field Support Advisor introduced themselves and explained the purpose of the activity and the times of attendance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The Field Support Advisor was polite and approachable and behaved in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The Field Support Advisor was knowledgeable and answered questions relating to the visit in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The activity was delivered in an organised, focused and logical way	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The Field Support Advisor regularly checked my understanding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I feel confident that the Field Support Advisor was well prepared and competent to support me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The Field Support Advisor was wearing career/business wear and was neat and tidy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have marked any of your answers 'Disagree' or 'Strongly Disagree' please tell us why in the comments section below

Please comment on the overall experience

Annex 15

POST OFFICE LTD[®]**Customer Feedback Questionnaire**

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the audit activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

My Audit

Please select one box only for each of the following questions..

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Introductions were made and the purpose of the visit was explained	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Appropriate steps were taken to advise customers of alternative branches during the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. I was kept informed of progress throughout the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit findings were clearly explained and if necessary any actions agreed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. There was minimal disruption to the branch	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The audit team was knowledgeable and able to answer my questions/queries about the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. I feel the audit was conducted in a professional manner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Mails Compliance	Dangerous Goods	General Compliance	Accessibility
8. Which of the following areas were discussed during the audit (please select all that apply)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have marked any of your answers Disagree or Strongly Disagree please tell us why in the comments section below

Please comment on the overall experience

POST OFFICE LTD[®]

Customer Feedback Questionnaire

This customer feedback form is designed to assess the effectiveness of the Field Support Advisor's delivery of the training/audit/support activity deployed. Your feedback is valuable to us and will form the basis of future improvements.

Your Name	Branch Name
-----------	-------------

Branch Code: Field Advisor Code: Date: / /

Branch Type: (please select one box) PO Local ☐ Main ☐ Community ☐ Core & Outreach ☐ Crown ☐

My Field Support Advisor

Please select one box only for each of the following questions..

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The Field Support Advisor introduced themselves and explained the purpose of the activity and the times of attendance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The Field Support Advisor was polite and approachable and behaved in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The Field Support Advisor was knowledgeable and answered questions relating to the visit in a positive manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The activity was delivered in an organised, focused and logical way	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The Field Support Advisor regularly checked my understanding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I feel confident that the Field Support Advisor was well prepared and competent to support me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The Field Support Advisor was wearing career/business wear and was neat and tidy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you have marked any of your answers 'Disagree' or 'Strongly Disagree' please tell us why in the comments section below

Please comment on the overall experience

Annex 16

Branch Write Off Process

Proposal to write-off a branch loss could result from several scenarios.

If discrepancy is disputed by agent/operator, then the disputes process should be followed and the agent advised to contact the Relationship Manager (RM) in the Finance Service Centre (FSC).

FSC Relationship Manager investigates case and makes decision on whether the discrepancy is proper to stand and whether this loss is attributable to the agent/operator, FSC or Network. If consideration is to be sought for write off, documentary evidence to support recommendation will be provided.

There may be occasions where Network propose write-off of a discrepancy after completing investigations which indicate an agent should not be held responsible for the cause of the loss. If investigations highlight the cause is outside of Network, the case should be passed to the appropriate team within Post Office Ltd. to deal with the case. (These cases should be minimal as majority of cases will be resolved within FSC and Network).

With these cases, liaison with the Relationship Manager is essential to agree course of action.

If consideration is to be given for FSC to write-off the loss:

Case forwarded to appropriate person for authorisation by proposer.

Return authorised case to Relationship Manager

Relationship Manager communicates decision to agent

Relationship Manager arranges for any necessary branch accounting procedures to clear the loss from the branch accounts

Relationship Manager arranges for the loss to be charged to the relevant FSC budget

Supporting documentation retained for probity purposes.

If consideration is to be given for Network to write-off a disputed loss:

The Relationship Manager advises the agent/operator in writing that the case is being passed to the Contract Advisor (CA) for further investigation.

The Relationship Manager forwards the case to the relevant Contract Advisor who will review the case and make further investigations as required. If the loss relates to Field Support Advisor (FSA) activity it will be necessary for the CA to refer the case to the relevant BAU Area Manager (AM) for the Field Change Advisor (FCA) to investigate.

Proposer (either CA or FCA) for write-off completes first section of 'Write-off Proposal' document and the decision rationale document detailing why the recommendation for writing off a debt partially or wholly is being made. The relevant (branch) cost centre code will be supplied by the CA on request.

The documents to be completed are embedded below:

Rationale document-



Write off proposal form-



The case is forwarded to the relevant sign off authority as shown in the section headed Authority levels.

Authority levels:-

- < £5k - Agents Contracts Deployment Manager or BAU Regional Manager
- < £25k - Head of Network Services or Head of Network Operations
- >£25k and <£100k - General Manager Network Agency Sales, Services & Transformation
- >£100k - would need to be referred to Finance for write off by Director

Complete write-off documentation and return to the proposer for action.

Return authorised case to Contract Advisor if passed to higher level for authorisation who will send to Proposer and where appropriate the proposer's line manager.

Contract Advisor to advise the Network Services Finance Analyst by email, of the write off decision.

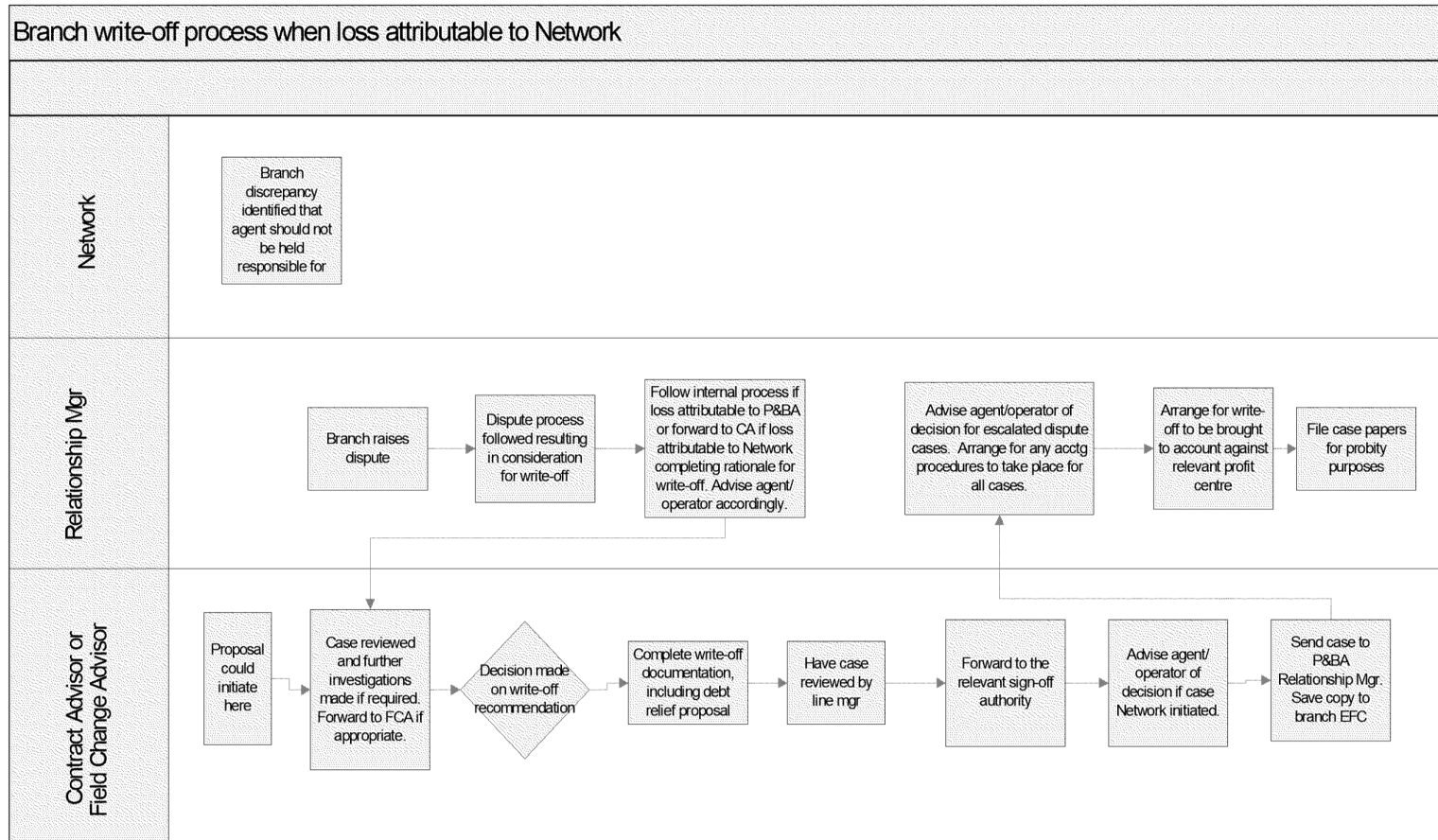
Proposer returns authorised case to Relationship Manager and arranges via Contracts Admin Team for copy to be filed on branch EFC.

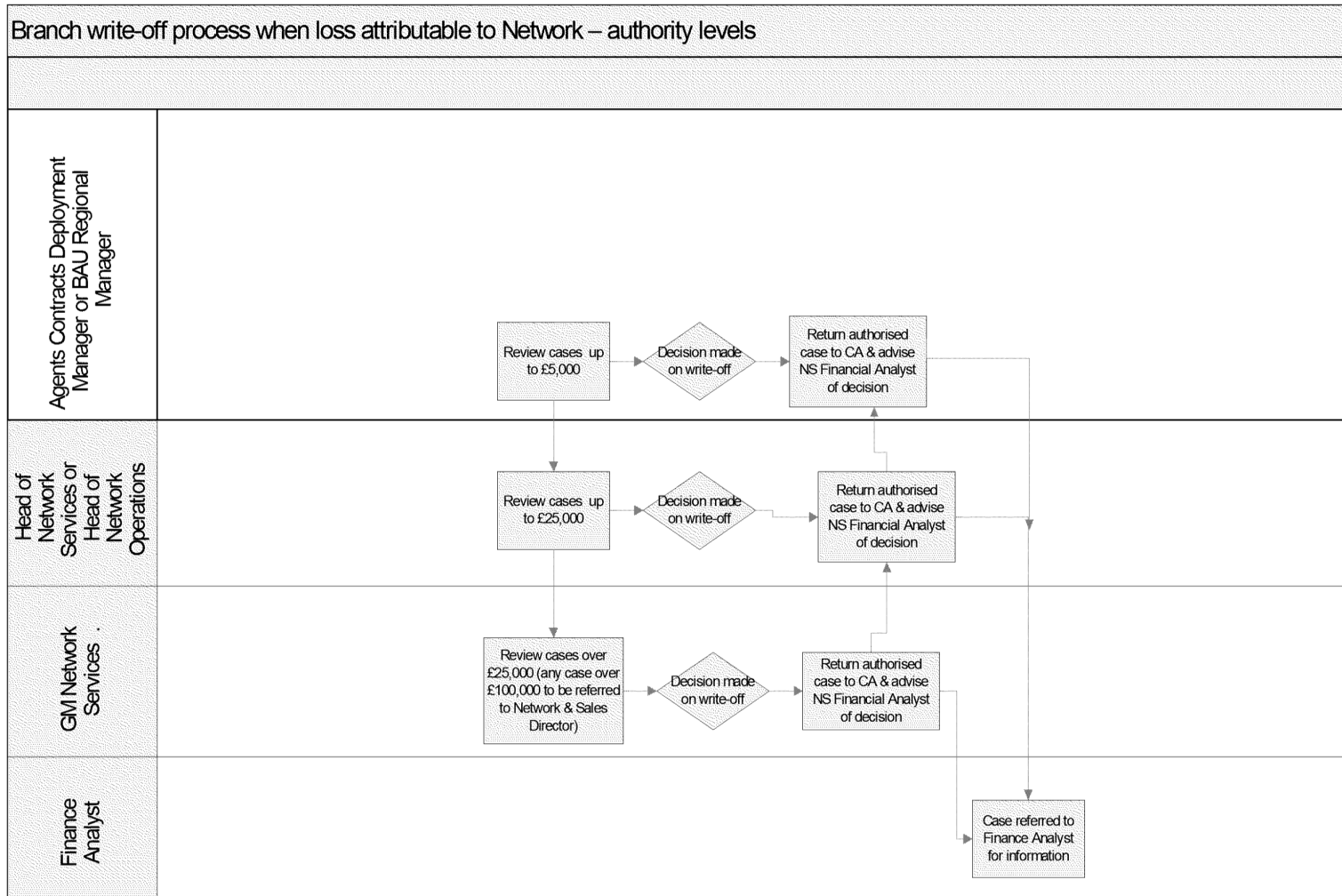
der communicates decision to agent - in certain instances it may be more appropriate for the proposer to advise the agent. This should be agreed between the proposer and Relationship Manager e.g. where the case has been instigated by Network. If the case is not going to be completed within 10 working days of the escalation, due to the complexity of the case or additional time required for verification of data, then the agent/operator should be advised accordingly in writing by the Contract Advisor and the Relationship Manager updated.

If appropriate the Relationship Manager arranges for any necessary branch accounting procedures to clear the loss from the branch accounts.

Relationship Manager arranges for the loss to be charged to Network budget.

Supporting documentation retained for probity purposes.





Annex 17

Encyclopaedia of Forms and Precedents/FRANCHISING, AGENCY AND DISTRIBUTION vol 16(4)/(C)
Forms and Precedents/A: FRANCHISING/3: FRANCHISE AGREEMENTS/18 Non-exclusive franchise
agreement for a retail business

18

Non-exclusive franchise agreement for a retail business¹

[817]

EFP 16(4): 04/2014.

THIS FRANCHISE AGREEMENT is made on *(date)*.

PARTIES

- (1) *(name of franchisor)*[[a company incorporated with limited liability under the laws of England and] whose registered office is at *(address)*, company registration number ... *(or as required)*] (referred to in this agreement as 'we', 'our', 'ourselves', 'us'); and
- (2) *(name of franchisee)*[of *(address)* (or) whose registered office is at *(address)*, company registration number ...] (referred to in this agreement as 'you', 'your', 'yours' or 'yourself').

RECITALS²:

- (A) We have developed the Concept and have established a reputation and distinctive image with the public for the Business.
- (B) We are the proprietors of the Marks which are known as representing high standards of *(insert details, eg quality canine accessories)*.
- (C) We wish to expand our franchised network and are therefore willing to grant to you the rights set out in this agreement to enable you to operate Your Franchise Business within an exclusive area.
- (D) You desire the right during the continuance of this agreement to operate Your Franchise Business in the Territory from the Premises.
- (E) You agree to enter into a lease in respect of the Premises³.
- (F) You acknowledge that you alone will carry the risk of operating Your Franchise Business⁴.
- (G) You acknowledge that you have taken full legal and financial advice on this agreement before its execution.

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IT IS AGREED:

1 Definitions and interpretation⁵

- 1.1 The following expressions, which are frequently used in this agreement, shall have the meanings attributed to them below. Other less frequently used expressions are defined in the body of this

agreement.

- 1.1.1 'the Additional Support' means support with substantial or continual operational, business or customer service problems in Your Franchise Business;
- 1.1.2 'the Advertising and Promotion Fee' means a monthly contribution to our [national (or) regional] advertising and promotion fund in a sum equivalent to [2]% of the monthly gross turnover of Your Franchise Business (exclusive of VAT), plus VAT on it;
- 1.1.3 'the Annual Sales Target' means:
- | <i>Year</i> | <i>Target</i> |
|----------------|---------------|
| <i>(dates)</i> | [£200,000] |
| <i>(dates)</i> | [£250,000] |
| <i>(dates)</i> | [£300,000] |
| <i>(dates)</i> | [£350,000] |
| <i>(dates)</i> | [£450,000]; |
- 1.1.4 'the Business' means the business of [retailing the Products] operated using the Concept;
- 1.1.5 'the Concept' means the concept of retailing the Products in the manner that has been carefully developed by us using the System and the Marks;
- 1.1.6 'the Equipment' means the equipment, fixtures and fittings and other materials from time to time required by you for use in the establishment and operation of Your Franchise Business, details of which are set out in Schedule 1 as amended by us from time to time;
- 1.1.7 'the Franchise Fee' means the sum of [£9,000] plus VAT;
- 1.1.8 'the Initial Package' means the Equipment and other materials necessary for the start-up of Your Franchise Business, details of which are set out in Schedule 2 as amended by us from time to time at the cost set out in that schedule;
- 1.1.9 'the Initial Training' means training in the correct operation of the System and the Concept comprising an initial induction course in the appropriate retail management and marketing techniques and training in the operation of the Business;
- 1.1.10 'the Inventory' means such of the Products as we deem appropriate to be sold in Your Franchise Business;
- 1.1.11 'the Know-how' means our substantial knowledge of and expertise in the retailing of the Products developed over a period of time;
- 1.1.12 'the Management Fee' means [£6] an hour for each person or as increased from time to time, plus [90p] a mile travel or as increased from time to time, plus the reasonable costs of hotels and meals, and plus VAT;
- 1.1.13 'the Manual' means our operating manual, which contains full details of the System and the operation of the Business;
- 1.1.14 'the Marketing Materials' means such marketing materials as we deem appropriate from time to time;
- 1.1.15 'the Marks' means the '(name)' trade mark described in Schedule 3;
- 1.1.16 'the Premises' means the premises located at (address);
- 1.1.17 'the Products' means (insert details of the products);
- 1.1.18 'the Service Fee' means a monthly service fee in a sum equivalent to [6]% of your monthly gross turnover excluding VAT;

- 1.1.19 'the System' means the methods of operating the Business developed by us using the Know-how, as set out in the Manual or otherwise communicated to franchisees;
- 1.1.20 'the Term' means a period of **[5]** years, commencing on *(date)*;
- 1.1.21 'the Territory' means **[the area comprising postcode *(insert details)* (or as required)]**;
- 1.1.22 'VAT' means value added tax;
- 1.1.23 'Your Franchise Business' means your individual business as one of our franchisees retailing the Products under this agreement.

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- 1.2 The headings in this agreement are for convenience only and do not affect its interpretation.
- 1.3 In this agreement, the words 'include', 'includes', 'including' and 'such as' are to be construed as if they were immediately followed by the words 'without limitation'.
- 1.4 In this agreement, unless the context clearly indicates another intention:
 - 1.4.1 reference to one gender includes all other genders,
 - 1.4.2 reference to the singular includes the plural and vice versa,
 - 1.4.3 reference to a clause, schedule or party is a reference to a clause of or a schedule or party to this agreement,
 - 1.4.4 obligations undertaken by more than a single person or company are joint and several obligations,
 - 1.4.5 reference to a statutory provision is a reference to that provision as modified or re-enacted or both from time to time and to any subordinate legislation made under the statutory provision,
 - 1.4.6 reference to a document is a reference to that document as from time to time supplemented or varied, and in particular reference to 'the Manual' includes all updates and other changes made to it by us from time to time,
 - 1.4.7 reference to writing includes fax, e-mail and similar means of communication,
 - 1.4.8 a number of days shall be reckoned exclusively of the first day and inclusively of the last day unless the last day falls on a day that is not a normal working day in England in which case the last day shall be the next succeeding day that is a normal working day in England, and
 - 1.4.9 any reference to a person includes natural persons and partnerships, firms and other such unincorporated bodies, corporate bodies and all other legal persons of whatever kind and however constituted.
- 1.5 The schedules and recitals form part of this agreement and any reference to 'this agreement' includes the schedules and recitals.

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2 Rights granted

We grant to you during the Term and subject to the terms and conditions of this agreement the non-exclusive rights to carry on Your Franchise Business from the Premises and use the Marks in accordance with this agreement. All other rights are reserved to us.

3 Term and renewal⁶

- 3.1 Subject as appears below this agreement shall be for the Term.
- 3.2 [Subject as provided below we (or) We] must grant you a renewal if you give us written notice of your desire to have one not more than 9 months or less than 6 months before the end of the Term.
- [3.3 *(insert detailed conditions to be satisfied before renewal will be granted)*]
- 3.4 Any renewal agreement shall operate from the date of the expiry of this agreement.
- 3.5 We confirm that you shall be under no obligation, having served the notice referred to in clause 3.2, to accept the terms of the standard agreement.
- 3.6 No fee will be charged on renewal, but you must pay our legal and administrative costs incurred in connection with the renewal agreement and any associated documentation.
- 3.7 It is a condition precedent of the grant of a renewal that before entering into the new agreement you must waive all and any claims you have or may have against us in respect of this agreement, your lease of the Premises or related matters.
- 3.8 Your right to require us to enter into a renewal agreement shall cease and be of no effect if, after the service of the notice referred to in clause 3.2 and before entry into the renewal agreement, you commit a breach of this agreement such as to justify the termination of it or that may result in its termination.
- 3.9 You shall not be under any obligation to pay any sum stated to be an initial fee and we shall not be under any obligation to fulfil any of the initial obligations or other obligations in the standard agreement that are not appropriate on renewal.

[821]

4 Premises⁷

- 4.1 You must take a lease in respect of the Premises, the terms of which must be agreed in writing by us before you enter into it.
- 4.2 You must observe and perform the agreements, obligations, covenants and stipulations contained or referred to in your lease.
- 4.3 You must comply with any notices served on you by any person entitled to the reversion expectant on the term of your lease, and give us a copy and full particulars of them.
- 4.4 You must notify us and keep us fully informed of any rent review that takes place pursuant to your lease and notify us of any revised rent that is either agreed or determined pursuant to it.
- 4.5 You must enforce the agreements, obligations, covenants and stipulations on the part of any landlord contained or referred to in your lease.
- 4.6 You must not vary or agree to vary the lease, or surrender or agree to surrender it.
- 4.7 You must not assign or otherwise dispose of the lease to any person other than a buyer of Your Franchise Business pursuant to and in accordance with the provisions of this agreement.
- 4.8 You must notify us and give us a copy and full particulars of any notices received by you relating to the Premises, including any notices served by any statutory, public or other competent authority or by the owner or occupier for the time being of any neighbouring or adjoining properties. You must comply with such notices where any owner or occupier for the time being of the Premises is obliged to do so.

5 Our initial obligations

- 5.1 We must⁸:

- 5.1.1 provide you with the Initial Training,
 - 5.1.2 at our reasonable discretion assist you to establish and operate Your Franchise Business from the Premises including advice with regard to alterations, refurbishment, renovation or other work necessary for the conversion of the Premises so that it is suitable for the operation of Your Franchise Business, providing you with access to our architects to produce, subject to our approval, a design for the interior of the outlet using our trade dress,
 - 5.1.3 provide you with the Manual,
 - 5.1.4 advise you on the Equipment that you require to commence Your Franchise Business and provide you with the Initial Package, and
 - 5.1.5 provide you with the Marketing Materials.
- 5.2 The Manual and the copyright in it shall at all times remain our property. The term 'the Manual' includes all updates and other changes made to it by us from time to time⁹.

[822]

6 Our continuing obligations

- 6.1 We must train you in the System by providing introductory and periodical refresher courses at such premises and, as and when we, in our full discretion, deem necessary¹⁰.
- 6.2 We must give you, free of charge, such reasonable continuing assistance and advice as we consider necessary for the efficient running of Your Franchise Business as and when we consider it to be necessary to provide 'on the spot' help and advice¹¹.
- 6.3 In addition to the reasonable continuing assistance and advice given to you by us under clause 6.2, we must help you with the Additional Support¹² at the cost of a reasonable sum to be determined at our sole discretion.
- 6.4 We must advise you in relation to advertising and public relations.
- 6.5 We must advise you in relation to staffing levels.
- 6.6 We must develop and change the Concept as we deem to be appropriate.
- 6.7 We must ensure that the Manual is kept up to date¹³ with any alterations or improvements in the System and the operation of the Business. In the event of any dispute as to the content of the Manual, the authentic copy of it shall be the copy kept as such by us.
- 6.8 We must keep you fully informed of all relevant public health, environmental and other regulations impacting upon Your Franchise Business.

7 Review of your business

In order to ensure that the Concept is not diluted and Your Franchise Business is operated to a consistently high standard, and to maintain the common identity and reputation of the franchise, we may review and audit Your Franchise Business regularly or as often as we deem necessary¹⁴. You must, at our request, provide or ensure that there is provided to us all information and documentation and other matters we require to carry out such quality control. Without prejudice to the generality of the foregoing you must provide us with any information we require in connection with quality control on a regular basis we determine and notify to you.

[823]

8 Your obligations concerning the Marks¹⁵

- 8.1 We authorise you to use the Marks solely for the operation of Your Franchise Business, and only at the Premises and in advertising Your Franchise Business, for so long as this agreement subsists. Any such usage must be in accordance with our reasonable directions¹⁶.
- 8.2 You undertake not to do anything to prejudice or damage our goodwill in the Marks or our reputation, and you must not do anything that is likely to bring the Marks into disrepute. In particular you must operate Your Franchise Business only under the Marks and must use the Marks without prefix or suffix. You must not use the Marks as part of your corporate or other name.
- 8.3 If you become aware of any infringement of the Marks by any other party trading with marks similar or identical to the Marks, you must immediately notify us of it in writing, but must take no other action against the infringer save to assist us in any action we may take, in accordance with this agreement¹⁷.
- 8.4 You must use the Marks in connection with the System and the Business, and must not use any other names in connection with the System and the Business¹⁸.
- 8.5 You must comply with all reasonable requirements from time to time laid down by us as regards the use and presentation of the Marks.
- 8.6 You must ensure that the Premises and any items regularly used by you in operating Your Franchise Business carry such words, devices or designs, in such prominence and colour, as may be specified by us from time to time, complying at all times with the provisions of this agreement as to notice of your status.
- 8.7 Where required by us you must join with us at our cost and expense in making any application or applications to record this or other trade mark licences at a Trade Mark Registry as we require and conform to the terms of the licence.
- 8.8 Any additional goodwill generated by you for the Marks shall be our sole property¹⁹.
- 8.9 You must not under any circumstances apply for registration of any trade or service mark in respect of the Marks or any part of them or colourable imitations of the same.
- 8.10 You must in all representations of the Marks used in Your Franchise Business append in a manner approved by us such inscriptions as are usual or proper for indicating that the Marks are unregistered where this is the case. When the Marks are registered you must, in all representations of the Marks used in Your Franchise Business, append in a manner approved by us such inscriptions as are usual or proper for indicating that the Marks are registered.
- 8.11 No warranty either express or implied is given by us with respect to the validity of the Marks.
- 8.12 We reserve the right to substitute, add to or withdraw those trade marks and other indicia that comprise the Marks at the date of execution of this agreement if the present ones can no longer be used or if we, in our sole discretion, determine that substitution of different marks will be beneficial to the Business. In such circumstances, the use of the substituted marks shall be governed by the terms of this agreement, and you shall not be eligible for any compensation for the substitution²⁰.
- 8.13 You must use the Marks only in accordance with the System and the standards and specifications associated with and symbolized by the Marks.
- 8.14 You must not use the Marks to incur any obligation or indebtedness on our behalf.

9 Your obligations

In order to maintain uniform high standards in the System and the Business, protect our intellectual property rights and maintain the common identity and reputation of the Business, you must, during the Term, observe the obligations set out below.

9.1 The Premises²¹

9.1.1 Decor

You must ensure that the Premises are painted, cleaned, maintained, decorated and fitted out in accordance with our requirements from time to time.

9.1.2 Fitting-out

You must ensure as soon as reasonably possible after signing this agreement that the Premises are altered, refurbished, equipped, fitted-out and decorated in accordance with our requirements, and must purchase the Equipment necessary to establish and operate Your Franchise Business from us or approved suppliers, including any suppliers nominated by you and approved by us.

9.1.3 Use of the Premises

You must not carry on Your Franchise Business from any location other than the Premises. The Premises must satisfy all planning and environmental and health and safety requirements²².

[825]

9.2 Operations

9.2.1 Carrying on Your Franchise Business

You must operate Your Franchise Business under the Marks and no other name and use your best endeavours to promote the Marks. You must not carry on Your Franchise Business anywhere other than at the Premises.

9.2.2 Changes to the Concept

You must accept and put into practice such changes to the Concept as we in our sole discretion deem fit²³.

9.2.3 Charges

You must not supply the Products without making a proper charge for them, except to remedy previously provided substandard products. You must carefully consider charging the prices that are from time to time recommended by us²⁴.

9.2.4 Competition²⁵

During the currency of this agreement or any renewal of it, you must not be directly or indirectly engaged, concerned or interested in a business similar to the Business where it would compete with us or one of our franchisees, including having a financial interest in such a business that may enable you to influence its economic conduct, but excluding a financial interest that does not allow you to influence the economic conduct of the business.

9.2.5 Complaints and inspections

You must notify us of all material customer or other complaints received by you within [24 hours] of your receiving them. You must handle all complaints in the way we shall

from time to time direct. Failing this, we shall be entitled to handle complaints directly as we, in our complete discretion, think fit, after consultation with you and we may require you to make a full refund of the cost of the Products to the customers concerned. If a customer commences legal proceedings against Your Franchise Business you must notify us immediately and we shall have the option of conducting the proceedings on your behalf.

[826]

9.2.6 Compliance with regulations etc

You must at all times comply with all relevant British, European and other health and safety standards or regulations relating to the storage and retailing of the Products and all statutory and other legal requirements and regulations of local authorities and other bodies.

9.2.7 Confidentiality and undertakings²⁶

- (a) You must not divulge or communicate to any person (other than to those whose province it is to know or upon our instructions or with our approval), or use for your own purposes or for purposes other than Your Franchise Business, any of our trade secrets or other confidential information you may have received or obtained during the Term or any renewal of it.
- (b) You must not reveal to or discuss with the press or any other third party any details of any dispute or disagreement between us and you or between us and any other third party and you must ensure that your officers and employees do not do so. Such information is confidential.
- (c) You must use your best endeavours to prevent the publication or disclosure by any other person of any of our trade secrets or other confidential information. This restriction shall apply indefinitely, but shall cease to apply to information that has come into the public domain other than by way of your breaching this clause. You must ensure that all of your employees and sub-contractors sign our approved form of employment contract immediately before commencing their employment with you[, and that your directors sign an undertaking of confidentiality and non-competition in the form approved by us].

9.2.8 Credit cards and other schemes²⁷

You must participate in any credit card or similar scheme operated or to be operated by us, including but not limited to the '[(name) Bonus Bonanza]' gift token scheme, and comply with the terms of such schemes.

9.2.9 Customers' access to information

You must not withhold information legally required to be given to customers, or make any misleading warranties or representations in respect of the Concept in the conduct of Your Franchise Business.

9.2.10 Data protection

You will, subject to this clause and in accordance with the requirements of the Manual (including privacy policies and standards), maintain a customer database containing all Customer Data and you will accurately record on the customer database prescribed by

us for use in Your Franchise Business the Customer Data of all persons who supply such information or details to you or whose information and details you obtain, when such person purchases services from, or makes enquiries in relation to Your Franchise Business in such a way as to allow the transfer of such Customer Data to us for the purposes of:

- (a) contacting those persons and offering them [Services (or) Products], subject to the declared preferences of such persons;
- (b) conducting quality control activities; and
- (c) maintaining a database of all Business customers.

All rights (including all database rights) and data held by you pursuant to this clause will, so far as is possible under the provisions of the relevant applicable legislation, belong solely and absolutely to and be vested in us, and you will take all steps reasonably requested by us to vest such rights in us and neither any such list of Customer Data nor any of the contents or information set out in it will be used by you for any purpose, other than in the normal course of operation of Your Franchise Business without our prior written consent.

9.2.11 Diligence

You must use your best endeavours to maintain the highest standards in all matters connected with the Business. You must carry on Your Franchise Business diligently and in a manner in all material respects reasonably satisfactory to us, and as may be reasonably required by us from time to time to maintain our image and reputation. You must not conduct Your Franchise Business or use the Marks in any way that may adversely affect the reputation of the Business, our franchise network or the Marks.

[827]

9.2.12 Employee training

You must ensure that all your employees are adequately trained as specified in the Manual before actually working in Your Franchise Business, and are retrained by you as and when we deem necessary. You must not allow any person responsible for the management of Your Franchise Business to be engaged in or assist with Your Franchise Business unless that person has undergone training and displayed a level of competency acceptable to us. At our request you must release your employees to us on full pay for training upon not less than [5 working days] notice for no more than (*number, eg 5*) working days every [6 calendar months], provided that only [1] employee is to be so released at any one time. You must be responsible for the cost of salaries and all travel and accommodation and subsistence costs.

9.2.13 Hours²⁸

You must carry on Your Franchise Business from the Premises for a minimum of [6 days a week] from [0900] hours to [1700] hours minimum or during such other minimum opening hours as we may decide. Further, you must ensure that the telephone at the Premises is answered by a competent individual between the hours of [0900] and [1700] all year round. An answer phone should be used outside of these hours.

9.2.14 Inspection and access to employees and customers²⁹

You must permit us or our agent without any further or other authority or notice to visit the Premises and inspect the quality of Your Franchise Business and the merchandise sold and to speak to customers and your employees at the Premises or elsewhere about Your Franchise Business and the Services so as to ensure that the standards associated with the Marks are being achieved and maintained. If necessary you must make arrangements to enable us or our agent to do so.

9.2.15 Merchandise

You must display all the merchandise offered for sale in Your Franchise Business in accordance with the retail display guidelines detailed in the Manual.

9.2.16 Misappropriation of funds

In order to protect the reputation of the Business and the goodwill in the Marks you must not:

- (a) withhold, misdirect or appropriate for your own use any funds withheld from your employees' wages, taxes, insurance or other benefits,
- (b) generally fail to deal fairly and honestly with your employees or customers,
- (c) knowingly permit any agent or employee to embezzle any funds or property of any of your other employees or clients, or having discovered the facts fail to take any action against or discharge him,
- (d) employ any member of staff without making proper deductions for income tax and National Insurance contributions as required by law, or employ any member of staff who is not permitted legally to work in the United Kingdom.

[828]

9.2.17 Purchase of goods

Due to the importance of providing only premium quality goods at competitive prices in the Business and in order to protect our intellectual property rights, maintain the common identity and reputation of the network and enable you and other franchisees to enjoy the benefits of bulk purchase, before commencing Your Franchise Business and during the Term and any renewal of it you must purchase the Products deemed necessary for you by us from us, our other franchisees, or channels of distribution or other third parties approved by us. Any goods purchased by you from us shall be purchased on our standard terms and conditions of business as notified to you from time to time.

9.2.18 Quality control

You must co-operate fully and comply with all our requests for information, documentation or other matters in the course of the quality control activities carried on by us, and must comply with and carry out all our instructions and requests aimed at ensuring quality control. You must use your best endeavours to ensure that any third party co-operates with us and complies with our instructions and requests in this regard.

9.2.19 Stationery³⁰

You must ensure that all letter paper, invoices and other stationery used by you in

connection with Your Franchise Business is in the form designated by us and has our prior approval.

9.2.20 Suppliers³¹

We may from time to time review the quality of the goods purchased by you from suppliers to ascertain whether they comply with our objective quality standards. If we feel that a product does not meet with our objective quality standards we shall notify you of that fact and ask you to purchase that item from an alternative supplier.

9.2.21 Targets

You must achieve the Annual Sales Target. Failure to do so shall entitle us, at our sole option, to terminate this agreement, without liability.

9.2.22 Telephone lines³²

You must subscribe for [3] or more telephone lines, as directed by us, to support telephone lines specifically for the business, the electronic point of sale system and the credit/debit card machines used in Your Franchise Business. You must only use these lines in connection with Your Franchise Business.

9.2.23 Till system³³

At our request you must install and operate at your own expense an electronic point of sale till linked to our central computer so that we have daily access from our head office to the till receipts, which must include all takings of Your Franchise Business for the period in question. In storing and processing personal data you must at all times comply with the provisions and obligations imposed by the Data Protection Act 1998 and the Data Protection Principles set out in it.

9.2.24 VAT registration³⁴

You must at all times during the Term and any renewal of it maintain your registration with HM Customs and Excise for VAT.

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9.3 General

9.3.1 Admissions and statements

You must not make any admission of liability or pay any damages without our consent. Also, you must make no statement or otherwise directly or indirectly pass any information to the press or any other third party regarding any dispute or potential dispute between you and us or between us and any other of our franchisees. If you do so it shall be a material breach of the terms of this agreement.

9.3.2 Anti-bribery

You must not (and must procure that no person acting on the Franchisee's behalf shall) directly or indirectly make or facilitate:

- (a) any expenditure for any unlawful purposes in connection with the Franchisee's Business or in connection with any activities in relation thereto;
- (b) any offer, payment or promise to pay any money or to give anything of value to any government official, political party or any other person with a view to influencing any action or decision of such person; nor
- (c) commit or consent to or participate in any other way in any act of bribery (howsoever

called) under the laws of any jurisdiction.

You further agree to comply with all applicable legal requirements and our policies against corrupt business practices, money laundering and facilitating or supporting persons who conspire to commit crimes or acts of terror against any person or government.

9.3.3 Branding

You must conform with our reasonable requirements regarding the branding of Your Franchise Business. You must display the Marks prominently in Your Franchise Business both internally and externally.

9.3.4 Disclosure³⁵

On entering into this or any other agreement or transaction with us during the continuance of this agreement, you must make full disclosure of all material facts or circumstances and of everything known to you respecting the subject matter of the contract or transaction that would be likely to influence our conduct, including any material fact concerning your, or if you are a company your officers', Franchise Business.

9.3.5 Employees³⁶

- (a) You must ensure that you retain at all times to our satisfaction personnel sufficient in number and ability to service Your Franchise Business adequately and must ensure that their terms and conditions of employment or engagement are acceptable to us.
- (b) You must ensure that all your employees conduct themselves in such manner as not to discredit or adversely affect the reputation of the Concept or the Marks. Your employees must at all times be clean and tidily clothed in such clothing as we at our discretion designate. You must comply with all instructions we give you with regard to the cleanliness, clothing, appearance or demeanour of your employees. We may give you any such instructions that are, in our reasonable opinion, desirable in order to maintain the uniform high standards associated with the Marks. You must immediately notify us if any of your directors, shareholders, employees or agents are arrested or questioned by the police in connection with an offence committed on the Premises or otherwise connected with Your Franchise Business.

9.3.6 Goodwill³⁷

You agree that all goodwill in the System, the Marks and the Business belongs to us and that any additional goodwill generated from the use or exploitation of the System, the Marks and the Concept in Your Franchise Business belongs to us and is held by you solely as our trustee. Further, all the customers of Your Franchise Business are, for the purposes of this agreement, but not as regards any liability for defective products or otherwise, our customers and not yours.

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9.3.7 Indemnity

You must indemnify us and keep us indemnified against all loss, damage or liability suffered by us as a result of your conduct of Your Franchise Business, including but not limited to costs, claims, damages, losses, penalties, fines, liabilities and expenses of

investigating and defending any claim, including legal fees and disbursements and consultants' fees and disbursements, and in particular those incurred as a result of:

- (a) failure to comply with or contravention of any laws, applicable present and future authorisations, registrations, duties of care, codes of conduct, regulations, notices, permits, consents, approvals and licences issued, imposed or directed by any relevant body, including without limitation any matter relating to the protection of the environment, damage to or use of any property or harm to human health,
- (b) use of the Marks or the System by you,
- (c) any failure by you or your employees to comply with any provision of this agreement or the Manual, or
- (d) any deliberate or negligent act, error or omission by you or your employees or agents.

9.3.8 Information to be provided to us

You must provide us with, or allow us to obtain otherwise, all information and reports specific to Your Franchise Business specified in the Manual and this agreement. The preparation and accuracy of all information you submit pursuant to this agreement and the Manual shall be your responsibility.

9.3.9 Insurance³⁸

You must insure with a major reputable insurance company with cover at a prudent level appropriate for the Territory, or such other minimum sum as we advise from time to time, against all normal and reasonably foreseeable risks relating to the conduct of Your Franchise Business and the retail of the Products and use of the Equipment as specified in the Manual, including without prejudice to the generality of the foregoing:

- (a) public and employers liability,
- (b) product liability, howsoever arising,
- (c) all risks insurance for the full replacement value of the Equipment, fittings and stock and other items used in Your Franchise Business in the Territory damaged as a result of fire, flood, explosion impact, vandalism and burglary and loss of profits of Your Franchise Business,
- (d) buildings insurance in respect of the Premises,
- (e) key person insurance to cover the death or incapacity of *(name of key person)* for the Term or any renewal of it,
- (f) any other insurance necessary in the Territory.

We may require proof that premiums have been paid, and we must be named as beneficiaries on the key person insurance policy. In addition you must pay the premiums on our business interruption insurance. We will advise you of the current levels of these premiums when you enter into this agreement. Certified copies of all cover notes and insurance policies must be sent to us. Our interest in Your Franchise Business must be noted on all policies. We shall not be liable for any losses you may suffer or claims you may have as regards the adequacy of the insurance cover taken by you.

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9.3.10 Internet and electronic rights³⁹

You may during the Term have your own website on the Internet to advertise and promote Your Franchise Business, and it may feature the Marks. You must comply with our social media policy, as amended by us at our sole discretion from time to time.

9.3.11 Leaflets

You must ensure uniformity in the design and quality of all publicity leaflets used in Your Franchise Business by ensuring that they are supplied by us or have our approval.

9.3.12 Manual

You must operate the System properly and strictly in accordance with the Manual as amended by us at our sole discretion from time to time.

9.3.13 Maximum charges⁴⁰

You must not charge excessive prices that might bring the Business or the Marks into disrepute. [You must consider keeping charges in line with those charged for similar products in the Territory].

9.3.14 Know-how

You must refrain from using the Know-how or exploiting the Concept except in the operation of Your Franchise Business.

9.3.15 Name⁴¹

You must not use the name '*(trade mark name)*' or any name resembling it as part of your or your company's name, either during or after termination of the Term or any renewal of it. You must comply with the Business Names Act 1985. You may however use the Marks as your trading name during the Term provided that you use them only in accordance with the terms of this agreement.

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9.3.16 Notice of status⁴²

You must not hold yourself out as or describe yourself as our agent, or in any way pledge our credit. You must clearly indicate on all literature and correspondence and by way of a prominently displayed notice at the Premises a sign stating 'An independent business owned and operated by *(insert your name)* under the *(trade mark name)* name as a franchisee of *(insert details)*'. You must take all other reasonable steps to publicise the fact that you are our independent franchisee and are in no other way connected with us, including the above notice on all literature used in Your Franchise Business. Nevertheless as regards goodwill all customers serviced by you shall be our customers not yours.

9.3.17 Other interests⁴³

You must not carry on any other business or be involved in any other business during the Term or any renewal of it save as approved by us. Before signing this agreement you must disclose to us by way of Schedule 4 to this agreement your full business interests and those of your directors and shareholders. This list must be kept regularly updated.

9.3.18 Our requirements

You must comply with all reasonable requirements consistent with the terms of this

agreement that we notify to you from time to time for the efficient conduct of the Business, including but not restricted to providing our prospective franchisees with reasonable information and implementing any changes to the System and the decor or layout of the Premises

9.3.19 Software

If we license you to use any software you agree to be bound by the terms of the software licence we require.

9.3.20 Taxes

You must pay all stamp duty and other taxes due and payable due to the execution of this agreement. All sums paid to us will be paid gross of any withholding tax in the Territory.

9.3.21 Updates⁴⁴

If you are a company, you must immediately provide us with copies of any amendments made to your memorandum and articles of association and provide us with any shareholders' agreement between your shareholders. If you are a partnership franchisee you must immediately provide us with copies of your partnership agreement and any changes to it.

9.3.22 Use of the Know-how

You must not use the Know-how for any purpose other than exploitation of the Concept, and must not disclose the Know-how to third parties.

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10 Your financial obligations

10.1 You must pay to us without deduction or set-off:

- 10.1.1 immediately upon signing this agreement, the Franchise Fee;
- 10.1.2 immediately on signing this agreement, the fee for the Initial Package set out at Schedule 2;
- 10.1.3 the Service Fee, which shall become due and payable within [3 working days] of the end of each calendar month, by direct debit;
- 10.1.4 the Advertising and Promotion Fee, which shall become due and payable within [3 working days] of the end of each calendar month, by direct debit, subject to clause 10.2;
- 10.1.5 within [30 days] of the date of an invoice presented to you by us, the cost of any products or services from time to time provided to you, including but not limited to advertising, promotional aids such as leaflets and other goods or services supplied to you by us during the invoice period;
- 10.1.6 our legal costs in respect of the signing of this agreement;
- 10.1.7 the reasonable administrative costs incurred by us in vetting any insurance policy; and
- 10.1.8 in respect of us providing you with the Additional Support, a reasonable sum to be determined at our sole discretion.

10.2 The Advertising and Promotion Fee shall not be payable for the first [6 months] of the Term. This concession shall only be applicable to the first franchise agreement you enter into with us and not

to any renewal agreement.

- 10.3 Interest shall be payable on all sums due in accordance with this agreement at [4]% above the base rate of (*name of bank*) or, if no such base rate is published, at a reasonable rate determined by us at our sole discretion until payment is received, as well before as after any judgment.
- 10.4 All money paid to us under this agreement shall become our sole property upon payment to us, shall be deemed to be fully earned at the time of payment and shall not be refunded to you under any circumstances.
- 10.5 You must meet the cost of wages incurred by your staff during training.
- 10.6 You must pay all of your debts, including but not limited to, the costs of [shop fitting], or any supplies or equipment supplied by third parties, in a prompt manner so as not to bring the Marks into disrepute.
- 10.7 We shall not charge you for the Initial Training provided at our training premises, but you must meet the cost of any travel, board and lodging incurred by you or your staff and the wage costs of your staff.
- 10.8 We shall be entitled to make a reasonable mark-up on any products and the Equipment sold to you.
- 10.9 You must record all sales and other financial information we require on point of sale and other equipment or software approved by us. You must maintain an accounting system in a manner and form satisfactory to us, prepare on a current basis complete and accurate records concerning sales and other aspects of Your Franchise Business, and preserve them for not less than [3 years]. The records must include, but shall not be limited to, books of account, tax returns, daily reports, and statements of revenue which must be prepared at least annually⁴⁵.
- 10.10 We may attribute any money received by us from you to any money owed to us by you whether under this agreement or otherwise, regardless of your purported designation of the payment to any account.
- 10.11 If statutory interest under the Late Payment of Commercial Debts (Interest) Act 1998 would be higher than the interest payable under clause 10.3, then we shall be entitled to claim statutory interest in lieu of interest under clause 10.3, and whether claiming statutory interest or interest under clause 10.3 we shall also be entitled to claim, once interest begins to run, any fixed sums due (or which would be due if statutory interest were claimed) under the Late Payment of Commercial Debts Regulations 2002 or any regulation amending or replacing the same.

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11 Advertising and promotion

11.1 [National (or) Regional] advertising

In consideration of you paying the Advertising and Promotion Fee to us in accordance with this agreement, we must fulfil the following obligations:

- 11.1.1 We must establish and maintain a [national (or) regional] advertising and promotion fund ('the Fund') to promote the Business.
- 11.1.2 We must pay all advertising and promotion fees received by us into a separate bank account to be used only in accordance with the provisions of this clause 11.
- 11.1.3 We must expend the Fund upon such national and regional advertising or promotional activities as we in our sole discretion think fit. We shall not, however, be under any obligation to expend on

advertising and promotion in each year any greater sum than the aggregate of the Advertising and Promotion Fees received from all our franchisees.

- 11.1.4 At the end of each of our financial years ending (*date*) we must arrange for an audited account to be prepared by our auditors of the sums received from all our franchisees and expended by us pursuant to this clause⁴⁶. We must forward to you an auditor's certificate showing the total of such receipts and payments. If that account shows that we have either overspent or under spent the money available in the Fund the amount overspent, including the cost of money borrowed or advanced, may be recovered by us from the next year's contributions but not so as to increase the sum payable by you in any year beyond ...% of your annual gross turnover excluding VAT. If that account shows that we have under spent the money available in the Fund, the proportion of the amount under spent attributable to you shall be deducted from your monthly Promotion and Advertising Fee during the next financial year, so as to reduce your monthly payment.
- 11.1.5 We must advise you as regards any further local advertising you may carry on. Such further local advertising may be carried on only in accordance with this agreement.
- 11.1.6 We do not guarantee that you and our other franchisees will benefit equally as a result of our use of the Fund.
- 11.1.7 We must meet with you each year to discuss our proposals for the use of the Fund in the forthcoming year.

11.2 Local advertising and promotions

In order to market the Business in your locality properly, you must:

- 11.2.1 regularly undertake at your own cost the local advertising and promotion described in the Manual from time to time;
- 11.2.2 follow our directions as regards advertising and promotions without delay, and use only advertising and promotional material previously approved by us in writing; and
- 11.2.3 ensure that your advertising and promotions activities comply with all relevant laws and regulations in the Territory.

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12 Your accounts

- 12.1 You must maintain proper books of account relating to Your Franchise Business as required by us from time to time and keep them on the Premises or at some other place required by us from time to time. You must employ a chartered accountant to prepare annual accounts for Your Franchise Business.
- 12.2 Within [30 days] after the end of each financial year of Your Franchise Business you must supply us with a copy of the management accounts of Your Franchise Business and such other accounting and financial information relating to it as we may reasonably require.
- 12.3 Within [4 months] after the end of each financial year of Your Franchise Business you must supply us with a copy of the audited accounts of Your Franchise Business and such other accounting and financial information relating to it as we may reasonably require.
- 12.4 You must supply us with any certificates and other documents referred to in clauses 12.2 and 12.3 that are prepared after the termination of this agreement but relate to any financial period of Your Franchise Business that falls wholly or partly within the period of this agreement.

13 Audit

- 13.1 We or our auditor or authorised representative shall be entitled to inspect and audit your books of account and all supporting documentation relating to Your Franchise Business at any time in respect of the whole or any part of the period of this agreement and within [6 months] after the receipt by us of the management accounts for the year or other period of this agreement up to termination or surrender of it or sale or transmission of Your Franchise Business to a new franchisee by us giving reasonable notice to you, such inspection or audit to be during reasonable business hours.
- 13.2 If an audit or any other periodic inspection not being a full audit shows that your accounting as to the calculation of the payments due under this agreement or any other financial matter is incorrect, you undertake to promptly rectify the defect in the amount accounted for or the accounting system defect as the case may be.

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14 Sale of Your Franchise Business⁴⁷

14.1 Your right to sell Your Franchise Business

You may not assign or delegate the performance of your franchise granted by this agreement or any right or obligation under it. However, subject to obtaining our prior written consent and subject to the conditions listed in clauses 14.2 and 14.3, you may sell Your Franchise Business. On the date of completion of the sale this agreement shall forthwith terminate. Subject to clauses 14.2 and 14.3 and subject to the terms of the lease or underlease of the Premises, we undertake to grant to an acceptable buyer of Your Franchise Business an agreement for not less than [5 years] commencing on the date of the sale. This replacement agreement shall be in the form of the standard agreement offered by us to our franchisees current at that time.

14.2 The conditions

The conditions to be fulfilled if we are to give our written consent to the sale of Your Franchise Business shall include the following:

- 14.2.1 Any proposed buyer must be bona fide and at arm's length and must meet our standards with respect to business experience, financial status and ability. [He] must successfully complete a programme of initial training by us.
- 14.2.2 Your lease of the Premises⁴⁸ must be transferred or assigned to any proposed buyer, provided that the transfer or assignment has the consent in writing of all requisite landlords.
- 14.2.3 On completion of the sale you must pay to us a sum equal to [10]%⁴⁹ of the sale price of Your Franchise Business if we introduced the buyer and [5]% otherwise to cover our costs of dealing with the application for consent, including all external costs incurred by us such as surveyors', estate agents' or legal fees, and the legal and administrative costs of any head landlord incurred in negotiating and granting any licence to assign or underlet, plus disbursements, together in each case with VAT at the then current rate.
- 14.2.4 You must not be in breach of any of your obligations under the terms of this agreement or have been in persistent breach of any of them during the Term.
- 14.2.5 You must execute a release or discharge in our favour of all claims against us and indemnify us against any claim arising from the period of operation of the franchise by you.
- 14.2.6 You must provide us with a financial statement of affairs and a business history of the proposed buyer and any other information we may reasonably require.

- 14.2.7 At our request you must have Your Franchise Business independently valued, taking into account the net market value of the assets to be sold and any additional value arising from sale of Your Franchise Business as a going concern but also taking into account your obligations under this agreement and the nature of the licence of the Marks and other intellectual property under it. The valuer must be a chartered accountant chosen by the parties or, in the event of a failure to agree on a choice within [14 days] appointed by the President for the time being of the Institute of Chartered Accountants of England and Wales. The chartered accountant shall act as an expert and not as an arbiter. His decision as to the sale price of Your Franchise Business shall be conclusive and binding and shall be the price at which you sell Your Franchise Business to the proposed buyer or to us if we exercise our option under clause 14.3. The costs of the chartered accountant in certifying the sale price shall be your responsibility.
- 14.2.8 The sale must be completed in time to enable us to enter into a replacement agreement with the buyer before the expiry of this agreement.
- 14.2.9 In respect of each and every proposed buyer's offer to purchase Your Franchise Business, the proposed buyer must submit to us a complete copy of [his] written purchase offer within [7 working days] of making it, together with a financial statement of [his] affairs and [his] business history and any further information we may reasonably require. It is a condition of our consent that the terms of the offer as submitted to us are the terms of the actual sale of Your Franchise Business. If the sale price or any other significant term of the offer is changed the amended terms must be submitted to us to be processed under and subject to this clause in place of the original or previous offer.
- 14.2.10 The period within which we may exercise our right of first refusal must have expired or we must have confirmed in writing that we do not intend to exercise our right.

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14.3 Our right of first refusal⁵⁰

- 14.3.1 In addition to our other rights under this agreement, we shall have an option to purchase Your Franchise Business for the same amount and on the same terms as those set out in any copy purchase offer submitted to us as required above. The option must be exercised by written notice given to you within [28 days] after we receive the copy purchase offer and accompanying items as required by us. During this period the terms of the purchase offer may not be altered without our consent.
- 14.3.2 If we do not exercise our option to purchase but consent to the sale to the buyer, it shall be a condition of the sale that the buyer must deposit [25]% of the purchase price with our solicitor upon exchange of contracts. Upon completion of the sale the buyer must pay the balance of the purchase price to our solicitor as your agent, subject to a lien for any money owed to us by you. We may deduct from the price the amount of any of your unpaid obligations to us together with the amount due to us under clause 14.2 and must remit any outstanding balance of the price to you within [30 days] after we receive the final amount of the purchase price.
- 14.3.3 If we exercise our option to purchase, your lease of the Premises must be assigned⁵¹ to us on the basis of the Standard Conditions of Sale current at the date of completion of the assignment, or if the Standard Conditions of Sale are no longer published the National Conditions of Sale 20th Edition, except in so far as the applied conditions are inconsistent with the terms of this

agreement. In any event:

- (a) no deposit shall be payable;
- (b) title must be deduced in accordance with the Land Registration Act 1925 Section 110 in the case of a sale of registered land, or must commence with the lease under which the Premises are held in the case of a sale of leasehold unregistered land;
- (c) the sale must be with vacant possession of the Premises on completion;
- (d) you must sell with full title guarantee; and
- (e) you must join with us in any necessary application for and co-operate fully to obtain any necessary order pursuant to the Landlord and Tenant Act 1954 Section 38(4) or otherwise to render fully enforceable the foregoing provisions of this clause and must take any other reasonably necessary steps to give effect to them.

14.4 Our right to assign etc

We may assign or transfer this agreement and all rights under it to any other party at any time. We must inform you in writing within a reasonable time after doing so. In the event of any such assignment or transfer, in consideration of our procuring for you and other developers an undertaking from the assignee or transferee to be bound by our obligations under this agreement, you must re-execute this agreement with the assignee or transferee if we require or [he] requires you to do so. If you fail to comply with the provisions of this clause you irrevocably appoint us as your agent with full authority to re-execute this agreement with the assignee or transferee.

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15 Termination

15.1 Remediable breach

We may terminate this agreement forthwith by notice in writing to you if you have failed to remedy any remediable breach within a period of [28 days] of the receipt of a notice in writing from us requiring you to do so.

15.2 Irremediable breach⁵²

We may terminate this agreement forthwith by notice in writing to you if:

- 15.2.1 you commit any material breach of your obligations under this agreement;
- 15.2.2 you are in persistent breach of your obligations under this agreement;
- 15.2.3 you are wound-up or become insolvent or are deemed unable to pay your debts or are subject to any application or any procedure for winding up or corporate reorganisation, except for the purpose of and followed by a reconstruction, or amalgamation without insolvency where the resultant company is or agrees to be bound by the terms of this agreement and is a company whose shares are owned by persons not in competition with us or you except to an amount not exceeding [5]%;
- 15.2.4 you enter into negotiations for an arrangement or composition with or for the benefit of your creditors;
- 15.2.5 a liquidator, receiver or manager is appointed in relation to Your Franchise Business or property or any part of it;
- 15.2.6 an administration order is made against you;
- 15.2.7 any part of your assets or Your Franchise Business is lawfully seized as payment or security for payment;

- 15.2.8 any procedure of similar effect to any of the foregoing is commenced or any other event occurs that causes your dissolution;
- 15.2.9 any sum required under the terms of this agreement is not paid or submitted at the latest within [14 days] following its due date;
- 15.2.10 any document is not submitted at the latest within [14 days] following its due date;
- 15.2.11 you fail to commence Your Franchise Business or you cease it or take any steps to cease it;
- 15.2.12 you challenge our intellectual property rights;
- 15.2.13 you are convicted of an indictable criminal offence or one involving dishonesty;
- 15.2.14 you behave in an immoral manner or any other way that may damage our reputation or yours;
- 15.2.15 you take, withhold, misdirect or appropriate for your own use any funds withheld from your employees' wages for any employees' taxes, insurance or benefits, generally fail to deal fairly and honestly with your employees or clients or knowingly permit or, having discovered the facts, fail to take any action against or to discharge any agent or employee who has misappropriated any funds or property of any clients or ourselves; or
- 15.2.16 you divulge confidential information to unauthorised third parties.

15.3 Other rights

The termination or expiry of this agreement shall be without prejudice to any rights and obligations in respect of any period after such termination and shall also be without prejudice to the rights and obligations of either of us against the other in respect of any antecedent breach of any of the terms and conditions of this agreement.

15.4 Set-off etc

Notwithstanding anything contained or implied in this agreement, we may set off against any money that would otherwise be payable or owing by us to you under or pursuant to this agreement unless and until you have paid, satisfied or discharged all moneys, debts or liabilities due or owing to us and have satisfied all of your other obligations to us.

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16 Post termination provisions

16.1 Your duties on termination⁵³

In the event of the termination of this agreement howsoever arising, in order to protect our intellectual property rights and reputation:

- 16.1.1 you must immediately cease operation of Your Franchise Business;
- 16.1.2 you must forthwith deliver the Manual to us, with all copies of it and all stationery and signs bearing the Marks, and all other items loaned to you by us then in your possession whether or not supplied by us;
- 16.1.3 you must cease using the telephone lines and any electronic point of sale equipment;
- 16.1.4 you must remove the trade dress;
- 16.1.5 you must take whatever steps we require in order to cancel your right to use the Marks or any of our other property;
- 16.1.6 you must not at anytime thereafter:
 - (a) disclose or use any confidential information or Know-how related to the System or the Business and the Products acquired by you during or as a result of this agreement, save that you shall be allowed to use any of the Know-how that has come into the

- public domain by means other than your breach;
 - (b) make any use of the Marks;
 - (c) purport to be a franchisee of or otherwise associated with us; or
 - (d) use any recommendation or reference provided as a result of your work as a developer; and
- 16.1.7 you must forthwith pay all sums and amounts due to us under the terms of this agreement or otherwise.

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16.2 Post termination restrictions on you⁵⁴

- 16.2.1 You must not for a period of [one year] following the termination of this agreement directly or indirectly be engaged, concerned or interested in a business similar to the Business that operates within the Territory, save for a financial interest that does not allow you to influence the economic conduct of such a business.
- 16.2.2 You must not for a period of [one year] following the termination of this agreement directly or indirectly be engaged, concerned or interested in a business similar to the Business that operates within a radius of [4 miles] from any Premises in the United Kingdom from which the Business is being carried on by us or any of our franchisees, save for a financial interest which does not allow you to influence the economic conduct of such a business.
- 16.2.3 You must not for the period of [one year] following the termination of this agreement, either on your own behalf or on behalf of any other person, firm or company seek to sell or obtain orders in respect of the Products for any person, firm or company who at the date of such termination is one of our customers or in the habit of dealing with us [within the Territory] or represent yourself as being in any way connected or having been formerly connected with or interested in the Business, the Marks or our franchise.
- 16.2.4 You must not without our consent in writing during the period of [6 months] after termination of this agreement, either on your own account or in connection with or on behalf of any other person, firm or company, solicit or entice away from us or our other developers any person who at the date of such termination is employed by us or our other developers, whether or not any such person would commit a breach of his contract of employment by reason of leaving such employment.

16.3 Restrictions reasonable

While the above restrictions are considered by both of us to be reasonable in all the circumstances, it is agreed that if, taken together, they are judged to go beyond what is reasonable in all the circumstances for our protection but would be judged reasonable if part or parts of the wording of them were deleted, they shall apply with such words deleted.

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17 Copyright

- 17.1 The copyright and all other rights in the text of the Manual, any software, our intranet, our website, any designs and photographs and all other documents that we supply to you ('the Copyright Materials') and all secret or confidential information contained in them are our property.

You undertake not to copy the Copyright Materials or disclose any of their contents or concepts to any other party. You undertake to not make any direct or indirect use of the Copyright Materials otherwise than in operating the Business in accordance with the terms of this agreement.

17.2 For the purpose of this clause:

17.2.1 the Manual shall be deemed to include the Manual as originally provided to you together with all additions and amendments to it from time to time, and

17.2.2 'secret or confidential information' shall include all confidential information provided to you from time to time, by memorandum or correspondence or howsoever otherwise, appertaining to the operation of the Business save for any that has come into the public domain other than through your own breach.

18 Entire agreement

18.1 This agreement and the Manual express the entire agreement between you and us and supersede any negotiations or prior agreements on their subject matter.

18.2 Both of us confirm that the whole of our negotiations and intentions have been included within the context of this agreement and it expresses clearly our requirements.

18.3 You confirm that no warranties, representations or other matters were relied upon by you causing you to sign this agreement that have not been satisfied in it.

18.4 This agreement shall not be modified in any way except by a written instrument signed by both of us.

18.5 Nothing in this agreement shall seek to exclude any liability for fraudulent misrepresentation. Except in the case of fraudulent misrepresentation, the only remedy available in respect of any misrepresentation or untrue statement made to either you or us shall be a claim for breach of contract.

18.6 All or any financial information relating to the operation of both Your Franchise Business and the operation of the Business, including, but without prejudice to the generality of the foregoing, forecasts, budgets and performance ratios or cash flow projections provided to you by or on our behalf or any of our employees or agents, whether before the signing or during the continuation of this agreement, is provided on the basis that such information is for your guidance only and shall in no way be treated by you as a warranty, representation or guarantee. You acknowledge that you have not and will not rely upon such financial information.

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19 Waiver

Neither our failure to exercise any power given to us under this agreement or to insist upon strict compliance by you with any obligation under it, nor any custom or practice of you or us shall constitute any waiver of any of our rights under this agreement. Waiver by us of any particular default by you must be in writing and shall not affect or impair our rights in respect of any subsequent default of any kind by you, nor shall any delay by or omission of us to exercise any rights arising from any of your defaults affect or impair our rights in respect of the said default or any default of any kind.

20 Severability

If any item or provision contained in this agreement or any part of it ('the Offending Provision') is declared or becomes unenforceable, invalid or illegal for any reason whatsoever, including, but

not detracting from the generality of the foregoing, a decision by the competent domestic or European courts, an Act of Parliament, European Union legislation or any statutory or other byelaws or regulations or any other requirements having the force of law, the other terms and provisions of this agreement shall remain in full force and effect as if this agreement had been executed without the Offending Provision appearing in it. If the exclusion of the Offending Provision will in our opinion adversely affect either our right to receive payment of all or any fees or remuneration by whatever means payable to us or the Marks, the Know-how or the methods of the Business, we may terminate this agreement on [30 days'] notice given to you in writing.

21 Warranties, undertaking and disclosure

- 21.1 You must make no statements, representations or claims and may give no warranties to any customer or potential customer in respect of the Business or Your Franchise Business, save those that have been specifically authorised by us, either in writing or in the Manual in force at the relevant time. You undertake to keep us fully and effectively indemnified against all claims, demands, losses, expenses and costs we may incur as a result of any breach by you of this provision or of any other provision contained in this agreement.
- 21.2 You warrant that you alone will carry the risk of carrying on Your Franchise Business, and that you have no previous knowledge of the Business.
- 21.3 You warrant that you have taken full legal advice on this agreement before its execution.
- 21.4 You acknowledge that we have supplied to you all information concerning us and the Business you deem necessary to enable you to make a decision whether or not to enter into this agreement.

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22 Improvements and atypical modifications to the System⁵⁵

You acknowledge that because complete and detailed uniformity under many varying conditions may not be possible or practical, we specifically reserve the right and privilege at our sole discretion and as we deem to be in the best interests of all concerned in any specific instance, to vary certain standards for any [territory] based upon the peculiarities of any [territory's] customer base, location, density of population, business potential, population of the locality, existing business practices or any other condition we deem to be of importance to successful operation [in any specific territory]. You shall not be entitled to require us to disclose or grant to you any like or similar variation.

23 Force majeure

- 23.1 This agreement shall be suspended for any period during which we reasonably believe that either of us is prevented or hindered from complying with any of our obligations under it by any cause beyond your or our reasonable control as the case may be, including but not restricted to strikes, fuel shortages, war, civil disorder, and natural disasters.
- 23.2 If such a period of suspension exceeds [180 days], then, upon giving written notice to you, we may require that:
- 23.2.1 all money due to us shall be paid immediately, and
- 23.2.2 you shall immediately cease trading until further notice from us.

24 Approvals and consents

Any approval or consent given under this agreement shall be valid only if given in writing by [one

of our directors]. You may not claim any money, damages, remedy by way of set off, counterclaim, or defence or otherwise, based upon any claim or assertion that we have unreasonably withheld or unreasonably delayed any consent or approval required under this agreement.

25 Third party rights

The parties to this agreement do not intend that any term of it shall be enforceable by a third party as defined in the Contracts (Rights of Third Parties) Act 1999 under the provisions of that Act.

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26 Notices

Any notice required to be given for the purposes of this agreement must be given by sending it by pre-paid first class post or fax, or by delivery by hand at the relevant address shown in this agreement or such other address as has been notified in accordance with this clause by the party concerned as being [his] address for the purposes of this clause. Any notice sent by post shall be deemed to have been served [2 days] after posting. In proving service it shall be sufficient to prove that a notice was properly addressed and stamped and put into the post. Any notice sent by fax shall be deemed to have been served on the next business day following the date of despatch of it. Any notice delivered by hand shall be deemed to have been served when physically delivered at the relevant address.

27 Choice of law and jurisdiction

This agreement shall be governed by and construed according to English law by the [High Court in London (or) ICC Arbitration in London. If the parties cannot agree on an arbitrator within 30 days one will be appointed by the President of the Law Society of England and Wales].

[28 Corporate issues⁵⁶

28.1 Directors

You must not change your directors without our prior written consent, such consent to be given at our sole discretion.

28.2 Change of your owners

You shall not have the right to allow any change in your owners, including but not limited to the transfer or charging of your existing shares or the issue or charging of new shares either to your existing shareholders or to third parties, without obtaining our prior written consent. If we consent to a change in your owners we may at our sole discretion treat this as a sale of Your Franchise Business and the provisions of clause 14 shall then apply, including, for the avoidance of doubt, clause 14.3.

28.3 Appointment of executive

28.3.1 You must appoint and at all times during the Term have in position, a full time executive to run Your Franchise Business on a day to day basis. The person appointed must be previously approved by us, and at all times after his or her appointment be acceptable to us, such approval and acceptance not to be unreasonably withheld.

28.3.2 We may at any time, if the approved executive is no longer employed by you or if he or she becomes incapacitated or dies, at our sole discretion if we consider it appropriate, manage Your Franchise Business on your behalf until such time as a new executive, acceptable to us is appointed. During that period we shall be entitled to the Management Fee together with the cost

of the travel, accommodation and subsistence of our employee or other representative engaged in the management, and shall be entitled to [50]% of the pre-tax profits of Your Franchise Business, to be calculated in accordance with generally accepted accounting policies applied on a consistent basis.

- 28.3.3 If a new executive approved by us is not appointed within 90 days of the previous executive ceasing to be employed by you, we shall be entitled to terminate this agreement on 30 days' notice without liability.]

[845]

AGREED by the parties etc(*For execution clauses and signature blocks see vol 12(3) (2013)*)
DEEDS, AGREEMENTS AND DECLARATIONS)

SCHEDULE 1

The Equipment

(insert details of the equipment including licences for any software)

SCHEDULE 2

The Initial Package and Cost

(insert details)

Schedule 3

The Marks

(insert details of the trade marks, including for each mark the application number, class and filing date)

SCHEDULE 4

Your Business Interests

(insert details)

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1 **Overview:** This is a non-exclusive franchise agreement for use by a retail business.

2 **Recitals:** Lengthy and accurate recitals are helpful in the event of future litigation over the circumstances surrounding the recruitment of the franchisee.

3 **Recital (E):** Some franchisors prefer to take the head lease of the premises and sublet them to the franchisee. Others take the view that this is taking too great a financial risk and prefer a third party landlord.

4 **Recital (F):** This recital aims to limit any claim by an unsuccessful franchisee that the franchisor should take on the franchisee's losses.

5 Clause 1--Definitions:

'Additional Support': This definition helps to avoid future disputes over what is included in the various fees paid to the franchisor.

'Advertising and Promotion Fee': The franchisees' collective power to buy advertising is a great commercial advantage. For a provision for a fixed monthly fee see Form 14 clause 1.1.2 [707] above.

'Initial Package': The initial package is usually detailed in the manual.

'Initial Training': The initial training is usually detailed in the manual.

'the Know-how': Know-how must be secret, substantial and identified. 'Secret' means that the know-how, as a body or in precise configuration and assembly of its components is not generally known or easily accessible, 'substantial' means that it includes information indispensable to the buyer for the use, sale or resale of the contract goods or services, and 'identified' means that it is described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality: see the Vertical Restraints Block Exemption Regulation EC 2790/99.

'the Management Fee': The management fee is to cover circumstances in which the franchisor is obliged to manage the franchisee's business, eg on sickness or death of the franchisee.

'the Manual': The manual is the cornerstone of the franchise. It is usually the embodiment of the franchisor's know-how.

'the Marks': The brand is an essential element in the franchise package.

'the Service Fee': The franchisee must check that the service fee enables his business to remain financially viable.

'the Term': If the term is more than 5 years, then an agreement seeking to take advantage of the Vertical Restraints Block Exemption Regulation EC 2790/99 will encounter issues arising under Article 5(a).

6 Clause 3: This window of opportunity balances the interests of both parties.

Some agreements list detailed provisions that must be satisfied for a renewal agreement to be granted.

Charging a renewal fee is acknowledged to be contrary to the British Franchise Association's Code of Ethics.

7 Clause 4: Some franchisors prefer to take the head lease and sublet to franchisees. However, this increases the franchisor's commercial risk.**8 Clause 5.1:** Some agreements deal with the need to retrain individuals who do not pass the initial training.

Some franchisors arrange for the equipment to be leased from a third party on commercially attractive terms otherwise unavailable to smaller operators.

9 Clause 5.2: Continuously updating the manual is crucial.**10 Clause 6.1:** Consider how the cost of this should be met. If it is not included in the fees, the cost should be specified.**11 Clause 6.2:** The difference between assistance given under clause 6.2 and additional support under clause 6.3 must be carefully defined.**12 Clause 6.3:** It is wise to define 'the Additional Support' carefully.**13 Clause 6.7:** Updating the manual on a regular basis is essential to the success of the franchise.**14 Clause 7:** Regular policing of franchisees is essential.**15 Clause 8:** The franchisor should not give warranties as regards to validity of the marks.**16 Clause 8.1:** The Trade Marks Act 1994 s 28 requires trade mark licences to be in writing.**17 Clause 8.3:** Only the franchisor should take action against infringers. See also the Trade Marks Act 1994 s 30.**18 Clause 8.4:** This is critical to protect the brand.**19 Clause 8.8:** Ownership of goodwill can be controversial.**20 Clause 8.12:** As brands continuously evolve, this clause is essential.

- 21 **Clause 9.1:** All outlets must appear to be identical.
- 22 **Clause 9.1.3:** Public health regulations must be complied with to help maintain the brand's reputation.
- 23 **Clause 9.2.2:** Franchisees can ruin a business for themselves and other franchisees if they do not adopt the latest changes to the concept.
- 24 **Clause 9.2.3:** Price maintenance breaches the Treaty of Rome art 81 and is a 'hard core' restriction. However, maintaining the brand's price profile is important.
- 25 **Clause 9.2.4:** This clause is essential to protect the know-how of the franchisor. See *Pronuptia de Paris GmbH v Pronuptia De Paris Irmgard Schilligalis*: 161/84 [1986] ECR 353, [1986] 1 CMLR 414, ECJ and the Vertical Restraints Block Exemption Regulation EC 2790/99 art 5.
- 26 **Clause 9.2.7:** This clause is essential to protect the know-how of the franchisor. See *Pronuptia de Paris GmbH v Pronuptia De Paris Irmgard Schilligalis*: 161/84 [1986] ECR 353, [1986] 1 CMLR 414, ECJ and the Vertical Restraints Block Exemption Regulation EC 2790/99 art 5.
- 27 **Clause 9.2.8:** This clause helps to preserve the common identity of the network.
- 28 **Clause 9.2.13:** Uniform opening times are important unless particular circumstances dictate otherwise.
- 29 **Clause 9.2.14:** This clause helps the franchisor to police standards.
- 30 **Clause 9.2.19:** Uniformity is very important.
- 31 **Clause 9.2.20:** Quality maintenance is essential. This is a practical alternative or supplement to product tying.
- 32 **Clause 9.2.22:** This clause is of great importance on termination. By returning the telephone numbers loss of clients can be reduced.
- 33 **Clause 9.2.23:** Uniform point of sale equipment can make policing franchisees much simpler.
- 34 **Clause 9.2.24:** See the Trading Schemes (Exclusions) Regulations 1997, SI 1997/31.
- 35 **Clause 9.3.4:** This clause can prove useful in any later dispute between franchisor and franchisee.
- 36 **Clause 9.3.5:** This clause helps to protect the franchisor's trade secrets and know-how.
- 37 **Clause 9.3.6:** This clause can have a substantial impact on the valuation of the franchisee's business.
- 38 **Clause 9.3.9:** Franchisees can see insurance as an easy cost cut. However, this can put the franchisor at risk.
- 39 **Clause 9.3.10:** See the Commission Guidelines on Vertical Restraints para 50.
- 40 **Clause 9.3.13:** Price maintenance breaches the Treaty of Rome art 81.
- 41 **Clause 9.3.15:** This abuse is common amongst franchisees not expressly prohibited from practising it.
- 42 **Clause 9.3.16:** This clause prevents the franchisee being part of the franchisor's corporate business and so helps reduce the risk of litigation against the franchisor resulting from the franchisee's acts or omissions.
- 43 **Clause 9.3.17:** Franchisees must devote all of their time to the franchised business. If this is not possible, a key man should be identified and charged with devoting all of his time to the franchised business on behalf of the franchisee.
- 44 **Clause 9.3.21:** This clause helps avoid franchisees restricting their ability to comply with the terms of the franchise agreement.
- 45 **Clause 10.9:** This clause helps with policing the franchisee's activities.
- 46 **Clause 11.1.4:** This transparency is essential for the franchisee.

- 47 **Clause 14:** Not all franchisees are allowed to sell their business although it is best practice.
- 48 **Clause 14.2.2:** The property is usually a fundamental part of the sale.
- 49 **Clause 14.2.3:** This percentage varies greatly amongst the various franchise networks in the United Kingdom.
- 50 **Clause 14.3:** A pre-emptive right gives the franchisor greater control over the ownership of the franchise.
- 51 **Clause 14.3.3:** If the franchisor is the landlord this clause should provide for the franchisee to surrender the sublease.
- 52 **Clause 15.2:** Specifying individual breaches is recommended as the courts are less sympathetic to general powers to terminate.
- 53 **Clause 16.1:** It is essential that former franchisees debrand as quickly as possible.
- 54 **Clause 16.2:** See the Vertical Restraints Block Exemption Regulation EC 2790/99 art 5(b); *Prontaprint plc v Landon Litho Ltd* [1987] FSR 315; *Office Overload Ltd v Gunn* [1977] FSR 39, 120 Sol Jo 147, CA; *Kall-Kwik Printing (UK) Ltd v Bell* [1994] FSR 674; *Kall-Kwik Printing (UK) Ltd v Rush* [1996] FSR 114; *Prontaprint v Devancy* (1992) unreported.
- 55 **Clause 22:** Atypical modifications must be specifically mentioned to avoid complications in the event of litigation with franchisees on the basis of discrimination against them.
- 56 **Clause 28:** This clause is relevant only for corporate franchisees. Personal guarantees may also be desirable.

[847]-[890]