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Post Office Limited
Initial Complaint Review and Mediation Scheme
Overview of Horizon and branch trading practices

CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT DOCUMENT

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Introduction

This overview has been prepared with a view to informing the reader of the basic functions of the Horizon system and Post Office's branch trading practices.

It is not exhaustive - there are a number of product and scenario specific processes that are not described in this overview.

Contents

[insert contents page]

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Post office: an overview

1. Post Office is a commercial business with a public purpose. The majority of its income is self-generated but it does receive financial support from its ultimate shareholder, the UK government. It has around 11,500 branches, sells more than 170 products and services and employs almost 8,000 people.
2. Although traditionally, Post Office is thought of a place to post mail, its branch network now provides a full range of products and services, from financial services such as commercial / personal banking and access to government benefits through to home telecommunications. A non-exhaustive list of products sold by Post Office is at **Schedule 1**.
3. Historically, Post Office was part of the Royal Mail Group with operations and services centrally controlled for both businesses. In April 2012, the two businesses separated and Post Office has since traded as a separate company.

Subpostmasters

4. The majority of Post Office branches are run by independent subpostmasters and are known as "agency" branches. Subpostmasters are, in the main, individuals who are contracted to run Post Office branches. They are individual contractors and not employees of Post Office and their position is similar to that of a franchisee.
5. A subpostmaster does not need to render personal service - they may employ "assistants" to conduct branch business. In some cases, a subpostmaster may employ a manager to run his/her branch and may have minimal personal involvement in day-to-day operations. The employment of assistants is the subpostmaster's responsibility. Where an activity is said to be undertaken by a subpostmaster, this activity could also be undertaken by an assistant in most cases.
6. Each subpostmaster owns (or leases from a third party landlord) the premises for which the branch is run. Other than setting minimum standards from the premises (in terms of legal ownership rights, physical security, etc.) it is the subpostmaster's responsibility to provide the branch premises.
7. Typically, the premises will be part of an existing business like a local shop or café. This existing business is typically referred to as the "retail business". Part of the premises is given up to transacting Post Office business and the Post Office equipment, cash and stock is generally kept separate on the Post Office side, away from the retail business, although the new "local model" which has been introduced as part of the Network Transformation Programme (see paragraph **xx** below) has changed this position.
8. In terms of transacting Post Office business, the subpostmaster is an agent of Post Office. In legal terms, Post Office business is a

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transaction between the customer and Post Office Limited, with the subpostmaster acting as Post Office's agent to complete the transaction. As the subpostmaster is not undertaking business in his own name, all the cash and stock held at a branch are owned by Post Office. In effect, the subpostmaster is a steward of this cash and stock, and although it is under the subpostmaster's control, it is not owned by the subpostmaster.

Other branch types

9. **Crown** - There are around 300 "Crown" branches that are directly owned and run by Post Office. The staff at Crown branches are employees of Post Office Limited and the branch is run by an employed "branch manager" rather than a subpostmaster. The operating procedures at Crown branches are largely the same as those at agency branches. Further information is available at paragraph xx below.
10. **Multiples** - Sometimes branches are located in much larger businesses such as Cooperative convenience stores or WH Smiths. These larger businesses tend to have multiple branches and are therefore called "multiples". The operating procedures at multiples are largely the same as those at agency branches.

The Network Transformation Programme

11. The Network Transformation Programme (**NT Programme**) that is currently underway is seeking to change the way that Post Office services are offered in branches.
12. Under the NT Programme subpostmasters can [apply?] to transfer to either a "main branches model" or "local branches model". The main branch model continues to offer a dedicated Post Office counter which is physically separated from the subpostmaster's own retail business. The local branch model fully integrates Post Office services within the retail business so that subpostmasters can offer Post Office services from the retail counter rather than a separate dedicated Post Office counter. This often means that Post Office services can be offered for much longer hours than before, in many cases from early morning until late at night, seven days a week.
13. To complement the NT Programme, Post Office has also set up a Crown Transformation Programme to increase revenue, improve customer experience and control costs of Crown branches (Crown branches being owned by Post Office as described at paragraph xx above).

The National Federation of Subpostmasters ("the NFSP")

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14. The NFSP is the organisation recognised by Post Office to negotiate on behalf of subpostmasters nationwide. It looks to improve the pay and conditions of service for subpostmasters. It also negotiates with Post Office on the payment for all services and products transacted over a Post Office counter. The NFSP works closely with Post Office on a range of other issues including post office security, operational systems and technology.
15. The NFSP provides a range of services offering support, advice and information to its members. Its monthly magazine, "The Subpostmaster", provides up-to-date information on issues affecting subpostmasters. A 24-hour helpline gives advice on contract / employment issues.
16. Representation and guidance is available from the NFSP in the event of disputes with Post Office. Subpostmasters have access to local support through local branches of the NFSP and its Executive Officers. The NFSP also runs a Benevolent Fund providing financial support to subpostmasters in need.

Subpostmaster's contract

17. The subpostmaster's contract has been subject to several revisions over the years, most recently in connection with the NT Programme. However, the core principles have generally remained unchanged. The majority of subpostmasters currently provide services to Post Office under the 1994 issue of the standard subpostmaster contract (as amended from time to time). The terms of the subpostmaster's contract are jointly drawn up by Post Office and the NFSP and the NFSP approves all subsequent variations to the contract.
18. Under the standard subpostmaster's contract, subpostmasters are remunerated based on a combination of fixed and variable sums calculated according to the volume of business that they transact.
19. A subpostmaster also has responsibility for the safekeeping of Post Office's cash and stock. A subpostmaster is therefore liable for any loss of cash or stock in their branches if that loss is caused by their carelessness, negligence or error (clause 12(12)) or by the carelessness, negligence or error of their assistants (clause 15). If cash or stock is lost by the fault of the subpostmaster, the subpostmaster is obliged to reimburse Post Office for that loss. The way that losses can occur is set out in section **REFERENCE**.
20. The allocation of risk for the loss of cash or stock between Post Office and subpostmasters is not unusual. It mirrors standard retail franchising contracts, where the "franchisee" runs his/her business under the "franchisor's" brand and bears the risks associated with that franchise. In the case of Post Office, it operates a network of over 11,500 branches and in 2012-13 its cash supply chain collected and delivered more than £42 billion of cash, coin, foreign exchange, secure stock (stamp, postal orders etc) and

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transactional stock (government forms and leaflets). Therefore it bears substantial risk in terms of its reputation and financial liability and, as a result of the agency relationship Post Office has with subpostmasters, some of that risk is passed down to subpostmasters who on a day to day basis are selling products and handling customer monies.

21. Serious errors by subpostmasters can result in a subpostmaster's contract being suspended and/or terminated, and/or action being taken against the subpostmaster (or their assistants) through the civil courts to recover any related loss.
22. Where Post Office discovers evidence of criminal wrongdoing, Post Office may exercise the right to bring a private criminal prosecution, which right is available to all companies and individuals. Typical criminal prosecutions are for fraud, theft or false accounting (where a subpostmaster has declared transactions or stock or cash levels within the branch which the subpostmaster knows are not true). Post Office sometimes refers these prosecutions to the police/national prosecution service (being the Crown Prosecution Service in England and Wales and the Procurator Fiscals office in Scotland). However, in the vast majority of cases, Post Office undertakes a private prosecution of the subpostmaster.

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Horizon and branching accounting

Horizon

23. Horizon is the electronic point of sale IT system used in all Post Office branches. In 1995, following a competitive tender process, Post Office commissioned the Horizon system ("**Horizon**") from the company now known as Fujitsu Services Limited. Horizon is accredited by Payment Card Industry Data Security Standard and ISO 27001. It encompasses the following elements:
- 23.1 both bespoke and off-the-shelf software packages which have been designed to allow Horizon to fulfil the needs of Post Office and subpostmasters;
 - 23.2 the computer hardware and communication equipment which is installed in each Post Office branch including the touch screen counter terminal and printers;
 - 23.3 the central data centres where transaction data from each branch is stored;
 - 23.4 the control and monitoring systems; and
 - 23.5 the testing and training systems.
24. Today, Horizon is used by more than 68,000 users across 11,500 Post Office branches.
25. Horizon is therefore more than the IT infrastructure used by Post Office and in all Post Office branches to undertake all transactions (from selling lottery scratch cards to cash withdrawals and currency exchange). Horizon stores all transactional data undertaken at each counter in every branch. Each terminal communicates with Post Office Data Centres via a secure communication line with a back-up communication system and in order to communicate Horizon must be 'online' on the internet. This data is stored by Post Office for a period of seven years in line with data retention policies.
26. In 2010, Post Office rolled out "Horizon Online" as part of its Horizon Next Generation (often referred to as "HNG-X") Programme to provide a simplified network based on the centralised processing of data. This programme offered the use of modern technologies, easier integration and speedier future development as well as the potential to deliver significant savings. The main changes were "behind the scenes" and affected the service provided by Post Office Data Centres, field service and telecommunications.
27. The main roll out of Horizon Online began in June 2010, following a pilot involving 1,422 branches, and completed in September 2010.

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Andy Holt - Please provide a description about the controls used to ensure data integrity ie. Sequential basket numbers

Branch accounts

28. In essence, Horizon is an electronic accounting system. It tracks every transaction made in a Post Office branch and logs the levels of cash and stock held in each branch. The branch's accounts are stored on and through Horizon, allowing the amount of cash and stock held in the branch to be looked up at any time.
29. The system's core principle is that of double entry recording i.e every entry must have a corresponding and opposite entry so as to "balance" the account. For example, if a product is sold for cash this would in most cases result in a reduction in a branch's stock levels of that particular product line and a corresponding increase in the amount of cash recorded as held at the branch.
30. The effect of this double entry system is that an input in one part of the branch's accounts can cause corresponding changes in other parts of the accounts.

Example:

The levels of stock held in a branch can be manually adjusted. A reduction in stock will however increase the amount of cash by the same value as Horizon will assume that the stock has been sold.

So if the amount of first class stamps recorded on Horizon is manually reduced by £10, the amount of cash recorded on Horizon is automatically increased by £10.

If this reduction in stamps was incorrect (say it was done by accident), when the amount of physical cash actually held in the branch is then compared to the amount of cash recorded on Horizon, the branch will be £10 short and will be showing a loss of £10 in cash. In this way, the error in accounting for stamps has migrated across the accounts to manifest as a loss of cash.

However, the branch should also now be actually holding £10 more in first class stamps than that the amount of first class stamps shown on Horizon. This creates a "surplus" of stamps physically in the branch.

In this scenario, there is therefore no net overall loss. The error can be corrected by manually increasing the value of first class stamps recorded on Horizon by £10, which will then automatically decrease the amount of cash recorded on Horizon by £10 (as Horizon will assume that as there are now more stamps in the branch, those extra stamps must not have been sold). This will bring in line (or "balance") the branch's accounts recorded on Horizon with the actual cash and stock holdings in the branch.

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Processing transactions on Horizon

31. In simple terms, most customer transactions are processed as follows:
- 31.1 A customer approaches the branch counter and requests certain transactions.
 - 31.2 The subpostmaster selects the appropriate product or service on the Horizon terminal and, if necessary, inputs the value of the transaction (eg. cash withdrawal from a bank account of £100).
 - 31.3 This process is repeated for each individual transaction requested by the customer (eg. at the same time as the cash withdrawal, the customer purchases £10 of stamps).
 - 31.4 Horizon groups the individual transactions together in a "basket" of transactions and displays the net amount to be paid to the customer or which needs to be taken from the customer (eg. in the above situation, the net cash due to the customer is £90).
 - 31.5 If payment is to be taken from the customer, the subpostmaster selects the payment method (eg. cash, cheque, debit card, etc.).
 - 31.6 The subpostmaster takes the payment from the customer or pays out cash to the customer as required.
 - 31.7 The subpostmaster completes the transaction on Horizon which closes that basket, ready for the next customer, and updates the branch's cash and stock records on Horizon (eg, in this scenario, the branch's cash will have decreased by £90 and stamps by £10).
32. There are exceptions to the above due to the specific accounting requirements of certain products (eg. Lottery transactions must be transacted on the separate national lottery terminal and Horizon is then updated later in the day).
33. There may also be various other steps that the subpostmaster needs to take to complete the transaction which are specific to the product in question (eg. completing and sending off various receipts and paperwork).

Reconciliation with clients

34. A number of the products and services available at Post Office branches are provided by third parties - see the product list at

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section REFERENCE. These third parties are commonly referred to as "clients".

35. When a client product is transacted, details of this transaction are communicated to client. Sometimes, this reconciliation is conducted in real time, and sometimes it is conducted at a later point. Post Office is then liable to account to the client for the transaction value (or vice versa). This interconnectivity with, and the transfer of information and records to and from, clients is part of Horizon's functionality.

Example:

At Post Office branches, a customer can deposit cash in or withdraw cash from his/her bank account with a number a major banks (eg. Lloyds, Santander, etc.).

If a customer wishes to withdraw £100 of cash from an account, the Horizon system connects to the client's computer banking system to confirm that the cash is available for withdrawal. Once authorised, Horizon will tell the subpostmaster to proceed with the transaction and to give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts on Horizon will be automatically reduced by £100 to reflect the withdrawal. This way the branch's accounts are kept in balance with the amount of cash actually on hand.

Likewise, the customer's account with the client bank will be debited £100.

At this point, Post Office is out of pocket: it has paid out £100 in cash to the customer but not received £100 from anyone. There is however a later reconciliation between the Horizon transaction records and the client bank's transactions records. Assuming that there is no error or discrepancy, the bank will then pay the value of the withdrawal (ie. £100) to Post Office.

This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position on Horizon at the transacting branch is increased by £100, the branch holding £100 more cash on hand and Post Office making a later payment to the client bank of £100.

Remittances

36. Branches send or receive cash and stock (which includes customer cheques as cheques are classed as a stock item on the Horizon accounts) to and from Post Office central processing centres. This movement of cash and stock is called a "remittance" (and is often referred to as "remming in" or "remming out").

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37. Post Office monitors the cash levels of each branch. Branches are either classed as "cash surplus" or "cash deficit" in terms of cash management. Those branches that are classed as cash surplus receive more customers who make deposits (eg. by making cash deposits to bank accounts or by buying products with cash) than customers who require cash withdrawals. For example, cash surplus branches tend to be in areas where there are lots of business customers making large deposits but not many benefit customers making withdrawals. These branches do not require cash remittances to be sent to the branch from Post Office as they will have a net inflow of cash from customers. These branches are however required to return cash to their nominated Post Office cash depots via a Cash Vehicle in Transit (a secure means of transporting cash) in order to prevent the branch holding too much cash on site. Post Office cash depots are placed in geographical locations around the UK and each branch will be "tagged" to a particular depot.
38. Cash deficit branches are those where the money deposited by customers to the branch does not cover the amount that the branch has to pay out. These branches rely on Post Office cash depots to send cash to the branch in order to ensure that there is sufficient cash in the branch to meet its needs.
39. Post Office's Retail Cash Management team are responsible for monitoring the cash levels within the branch network to ensure that branches have enough cash to serve customers. Information is also taken from branch's daily cash declarations to declare to the Bank of England how much cash is held by Post Office branches. This is because the cash that sits within branches is loaned to Post Office by the Bank of England (and interest accrues on the loaned sum).
40. The decision on how much cash a branch needs to rem in or out is determined by Post Office's Flexible Planning System which is an IT SAP-based software tool used by the Retail Cash Management team. In essence, it calculates the cash declaration figures that are entered into Horizon by subpostmasters and compares this with the sales information. It also takes account of the average transactions occurring over the past 6 weeks trading history to identify how much cash the branch should return or send back on their next scheduled cash delivery. This information is communicated to subpostmasters via Horizon which will show a Flexible Planning Advice Note. The subpostmaster has the option to amend or cancel the cash that is planned to be returned or sent to the branch by contacting the Retail Cash Management team.
41. Where cash is to be remmed out to Post Office, the branch is responsible for placing sufficient cash into a remittance pouch, entering the amount that is being remmed out onto Horizon and then either handing the remittance pouch to the Cash in Transit Driver, or sending it back to Post Office via Royal Mail Special Delivery. This will decrease the amount of cash recorded in the branch accounts on Horizon.

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42. Where cash is remitted into a branch, the cash remittance is sent by Post Office to the branch either via a Cash in Transit Driver or via Royal Mail Special Delivery. The branch is responsible for checking that the remittance pouch contains the amount of cash stated on the remittance and then logging the receipt of cash on to Horizon. This will increase the amount of cash recorded in the branch accounts on Horizon.
43. A similar process is used to remit customer cheques received by the branch. When a customer pays by cheque, the total aggregate value of all cheque stock held by a branch is increased on Horizon. Cheques are then remitted in/out by a subpostmaster to Post Office on a regular basis which reduces the value of cheque stock recorded on Horizon. Post Office then takes responsibility for putting the cheques into the banking system and recovering payment from the customer's bank.

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Branch reporting and management

Reporting

44. Subpostmasters are required to run and review in-branch reports to ensure that the branch is functioning effectively and to allow Post Office to monitor cash and stock levels against its records. This includes:

- 44.1 **Daily Cash Declaration** - staff at each branch are required to count and declare the cash stored in each stock unit at the end of each day (for explanation of stock units please see paragraph xx). The actual cash on hand is input onto Horizon by the subpostmaster or his/her assistants. Horizon then shows any "discrepancy" between the cash on hand and the amount of cash that should be in the branch in order for the branch to balance.

Commented [AP61]: Mandatory or optional?

If a discrepancy is identified then the cash should be recounted and the paperwork re-checked. If there has been an error in the counting of the cash, then the cash should be re-declared. Transaction and event logs plus a balance snapshot can be printed from Horizon to check for any errors or amendments which may be needed. It is also best practice to open and check any stock and cash pouches made up ready to return to Post Office in case there has been any error when filling the pouches.

Commented [AP62]: What are these – please describe – suggested that we speak to Fujitsu for wording

Commented [AP63]: What does this mean? suggested that we speak to Fujitsu for wording

- 44.2 **Weekly Balance** - It is recommended that every week, a branch undertakes a full cash and stock count. The actual amounts on hand of cash and stock can then be compared to the figures recorded in Horizon. This helps the branch with identifying and correct any discrepancies.

Weekly discrepancies can also be temporarily moved into a "suspense" account by a subpostmaster. This is a separate line in the branch accounts which records any losses or surpluses so that the daily trading accounts can be put into balance. Amounts are typically held in suspense to allow the subpostmaster time to try to resolve the discrepancy.

Commented [AP64]: How is this done? Does the SPMR need consent for FSC to do this?

The Daily Cash Declaration and the Weekly Balance are tools for the subpostmaster to use to manage their branch. Declaring a loss or surplus through either of these reports does not trigger any action by Post Office.

- 44.3 **Monthly Trading Period Rollover** - This is similar to the Weekly Balance but is mandatory every month. It also requires any discrepancies (including those put into suspense during the month) to be resolved. This process is also called "rolling over" or the "end of trading period" process. At the end of the process, the subpostmaster must print off and sign

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a "Branch Trading Statement". This statement confirms that the cash and stock shown in the accounts reflect the cash and stock held in the branch (with any discrepancy having been declared – see below). If a branch does not rollover it does not need to address cash/stock discrepancies or transaction corrections. However, the integrity of the data held on Horizon may become compromised and if a rollover does not occur it is likely that Post Office will intervene through its Services Management team.

Commented [AP65]: How are these discrepancies then addressed?

Commented [AP66]: We cannot say that data is compromised – please can you provide a more detailed explanation so that we can use more appropriate language

44.4 Mandatory daily and weekly "cut off routines" are in place in to enable branches to validate transactions and to ensure that the paper records match Horizon. This also assists to identify errors. For example, validating the physical cheques held in branch (as against Horizon's records) to send to clearing or banking summaries to send to Santander. Validations of physical paperwork against Horizon records can detect errors or omissions, for example, if a cheque transaction has incorrectly been recorded as a cash transaction on Horizon.

44.5 Subpostmasters can access a range of historic data (going back 60 days) through Horizon. For example, transaction logs can be searched using parameters such as product, value, user id and date/time.

Resolving surpluses or losses of cash or stock

45. If following the monthly rollover there is a shortage or surplus of stock, the subpostmaster will do a sale or sales reversal to correct the volume of stock shown on Horizon, making sure it balances to the volume of stock held in the branch.

46. If following the monthly rollover there is a surplus of cash (when the cash on hand i.e. in branch is more than the amount of cash recorded in Horizon), the subpostmaster is entitled to physically remove from the branch sufficient cash to bring the branch back into balance. This excess cash then becomes the subpostmaster's property and they may do with it as they wish. Often subpostmasters keep surplus cash in a separate location (like the retail business safe) and then use this cash to balance out any subsequent shortages.

47. If following the monthly rollover there is a shortage of cash (when the cash on hand is less than the amount of cash recorded in Horizon), Horizon presents the subpostmaster with three options:

47.1 **Make good** – the subpostmaster can elect to put additional cash into the branch from their own personal funds to make up the shortage. The subpostmaster can for example elect to put a cheque into the branch from their own personal funds to make up a shortage.

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- 47.2 **Settle centrally and pay** - the shortage is transferred to the subpostmaster's personal account with Post Office. The cash figure on Horizon is reduced to bring it in line with the actual cash on hand at the branch. However, the subpostmaster personally owes the cash loss to Post Office as a debt. This debt can be repaid by either (a) a direct payment from the subpostmaster to Post Office or (b) by deductions from the subpostmaster's remuneration.
- 47.3 **Settle centrally and dispute the shortage** - if the subpostmaster believes that the shortage was not his/her fault or could be resolved through other means (see below), then the debt will be suspended to allow time for the shortage to be investigated and remedied. The subpostmaster disputes a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the Finance Service Centre ("FSC") at Post Office to have the debt suspended pending an investigation.

Transaction corrections

48. The FSC (often referred to as "Chesterfield" by subpostmasters because of its geographical location) is Post Office's behind the scenes account processing centre. It provides daily services to clients, branches, multiple partners and customers.
49. Transaction Corrections ("TCs") are transaction adjustments sent by the FSC to branches when errors are found. Even if the branch's accounts are balancing (ie. there is no discrepancy between cash and stock on hand and the cash and stock levels on Horizon), it may be that the branch has processed transactions erroneously or in a way that causes a Post Office client to refuse to reconcile the transaction with Post Office, thereby causing a discrepancy.
50. TCs can be issued for a wide range of issues resulting from matters such as errors or omissions in data entry, such as mis-keying, forgetting to enter data, failing to close a customer basket from previous customer session, delays in sending cheques for processing, incomplete cheques, bounced cheques and card payment issues. In 2012/13 the most common reason for TCs being issued to branches was due to "cash remittances from branch".

Example:

A branch records remitting out £100 in cash and sends the cash pouch to the cash centre. However, upon opening the cash pouch at the cash centre the pouch contains £110. This creates a discrepancy at the cash centre and (assuming the branch is otherwise balancing) the branch will generate a £10 shortfall during the next cash declaration. The FSC will raise a credit transaction for the branch. In order to resolve this from a double entry accounting perspective, the branch has to increase remittance out totals by

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£10 and reduce the derived cash position at the branch by £10. The branch should then balance.

51. Due to the fact TCs are often generated due to a discrepancy between Horizon and a client's records, there can be a time lag between the error occurring and the TC being issued.

Example:

If a customer deposits £100 into their bank account but, through a keying in error, the branch only records a deposit of £10 on Horizon, Post Office is reliant on the customer pointing out the error.

In this scenario, the records on Horizon and at the client bank will reconcile as both will show a £10 deposit. The branch will have a £90 cash surplus (as the branch will have taken £100 from the customer but only recorded receipt of £10 in Horizon).

The customer may raise a complaint with Post Office directly or could raise the complaint with his/her bank who will then contact Post Office.

52. The time taken to identify the error is therefore sometimes outside of Post Office's control. Nonetheless, Post Office achieved its target for 2012/13 and issued 95% of TCs within 3 months of receipt of the error (many errors can only be identified and raised by Post Office client's).
53. When a TC is sent to a branch through Horizon, the branch is provided with hardcopy evidence of how the error has occurred. TCs are often preceded by enquiries with branch, particularly if a large number of TCs are being sent to that branch. For example, the FSC can make interventions by letter and telephone to obtain further details.
54. Branches are required to accept a TC through Horizon before completing their Branch Trading Statement. The branch does not have to accept the TC on receipt (although it may be prudent to do so) and can instead print the transaction correction narrative off and take the necessary action within the next 60 days.
55. Processing a TC often results in an adjustment to the cash or stock position at the branch within the branch's accounts. TCs can both debit or credit the branch's accounts. As such, a TC may not immediately cause the subpostmaster a loss or cause any loss to the subpostmaster at all.

Example 1:

If a branch processes a bill payment of £100 as £10 on Horizon, the branch would see a cash gain of £90. The customer receives a bill reminder that full payment has not been received and contacts Post Office to resolve the issue. The error is identified and a Debit TC

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is issued to the branch in the next trading period because POL will need to pay an additional £90 to the customer's service provider. The branch processes the Debit TC which increases the cash position on Horizon, thereby creating a £90 shortfall against the cash of hand. This shortfall however nets off against the erroneous gain in the previous trading period. Nevertheless, viewed in isolation, this shortfall could be seen by the subpostmaster as an unconnected loss.

Example 2:

A customer presents a Transcash deposit slip to make a bill payment but it is then established that an appropriate method of payment is not possible so the transaction is not recorded on Horizon and no cash changes hands. However, the branch incorrectly retains the deposit slip and does not follow the end of day procedure to compare the slips on hand with the Horizon record of slips received that day. The failure to conduct this check causes the subpostmaster to send the slip to Post Office, who then process the bill payment (ie. money is paid from Post Office's account to the customer's service provider's account).

When Post Office later reconciles the bill payment against Horizon's records, there will be no matching payment record in Horizon and a TC will be sent to the branch. If the branch accepts the TC, this will alter the branch's cash position (so to reflect the subpostmaster's error). At the end of the trading period, the TC's effect on the cash position will cause a shortfall during the trading period in which the TC is sent. This shortfall however reflects the additional cash that the subpostmaster needs to put into their branch in order to correct the earlier error.

56. TCs can also be disputed with the FSC team that issued the TC. If the TC dispute is upheld a compensating TC will be issued to the branch. If it is not upheld a written appeal can be made to the relationship manager in FSC who will review the case and make a final decision. Any payment required by the subpostmaster will be suspended until the review is completed.
57. The volume of TCs issued for branches during the 2012/13 period was 84,217, with an average value of around £100 each. This is against a backdrop of an average 2.5 billion transactions being completed on Horizon each year.

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Crown Branches

[Rodric Williams to produce detail]

58. Post Office operates around 300 Crown branches that are directly owned and run by Post Office. The staff at the Crown branches are employed by Post Office and a "branch manager" rather than a subpostmaster manages the branch.

[Why does POL have Crown branches? What is their purpose? Describe losses suffered by Crown branches in 2013/14? Why are they not profitable?]

59. The operating procedures at Crown branches is largely the same as the agency branches run by subpostmasters except as follows:

[Please list procedural differences]

60. Equally Crown branches are subject to audits (see [xx]) and if a branch manager of a Crown branch is suspected of wrong doing Post Office will take action, including criminal prosecution.

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Training

61. New subpostmasters receive training prior to and after taking up their position in branch. Training covers matters such as how to transact products and services; reconcile the day's transactions; remit in and out cash and stock; despatch cheques to processing centres. Subpostmasters are also trained on how to balance the branch on a weekly basis and roll over in to the next balancing period. As part of this training, subpostmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise, as well as how to accept discrepancies, make good any losses and gains, and how to raise issues about errors/discrepancies.
62. Post Office continually monitors and considers how best to train subpostmasters and, as part of the current Business Improvement Programme which aims to improve the performance of all branches, Post Office is reconsidering how best to train subpostmasters on new products (currently training on new products is through workbooks and testing through Horizon).
63. Examples of the types of training Post Office has offered in the past are as follows:
 - 63.1 **2001 - 2002** classroom training was offered to new subpostmasters followed by 10 to 11 days of onsite training and support. This would be followed with one day of "follow up balance" which is a branch Trading Statement showing the stock and cash held in branch.
 - 63.2 **2003** - between 5 and 10 days of classroom training was offered to new subpostmasters (the training being optional) and 6 to 10 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance.
 - 63.3 **2004 - 2005** - between 5 and 10 days of classroom training was offered to new subpostmasters (the training being optional) and 5 to 10 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance.
 - 63.4 **2006** - between 5 and 10 days of classroom training was offered to new Subpostmasters (the training being optional) and 6 days of onsite training and support was given depending on whether the classroom training was attended. This would be followed with one day of follow up balance.
 - 63.5 **2007 - 2011** - New subpostmasters received 5,8 or 10 days of training on foundation, sales and other specialised modules. 6 days of onsite training and support was provided, followed with one day of follow up balance. In 2007 following a pilot scheme follow-up telephone calls were introduced at intervals of 1 month and 6 months after the branch was taken over by the

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subpostmaster, with a one day site visit taking place 3 months after the branch was taken over.

64. A subpostmaster may choose not to attend training or only parts of a training session if, for example, he/she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training is provided it is up to the subpostmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is up to the subpostmaster to ask for further training and/or assistance if it is required (please see paragraph xx below for details of the support available to subpostmasters).
65. In 2012, as part of the wider steps being taken to "transform" the network, Post Office tailored its training depending on the specific role being undertaken and rolled out further training depending on, for example, the experience of those specific subpostmasters, the type of contract they would be operating and the number of employees they may have. The precise training given to subpostmasters will therefore depend on a number of factors such as whether the subpostmaster is completely new to the role, whether he/she is taking over an existing branch with existing staff, the size of the branch and the types of products sold.
66. For example, Post Office currently offers (amongst other packages) the following packages of training to new subpostmasters:

New Post Office Local Operator

- 66.1 As part of the NT Programme (see paragraph xx above) Post Office created the New Post Office Local Operator model for new subpostmasters (along with the New Main Operator model). The contract between Post Office and subpostmasters under these new models is different to the historic contractual relationship, the main difference being a shift to variable remuneration.
- 66.2 Subpostmasters operating under a New Post Office Local Operator tend to have large retail businesses which sit alongside the Post Office and so, for example, the subpostmaster will agree to operate the same opening hours for the Post Office as for the retail business.
- 66.3 Prior to the transfer/conversion of a branch to a new subpostmaster 3 hours of distance learning is offered to the subpostmaster and their staff. This includes a written Foundation Module consisting of compliance for standard Post Office products.
- 66.4 The subpostmaster is then offered 3 days of Counter Training Office (CTO) classroom training. Following the classroom training it is the responsibility of the subpostmaster to feedback to their staff. However, if the subpostmaster is

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employing 6 or more members of staff, Post Office will offer spaces on the course to up to 50% of the subpostmasters staff.

66.5 Post Office schedule the equivalent of 1 days' training (normally split over 2 days depending on availability) for office set-up. This includes matter such as setting up Horizon log-ins; ensuring the pinpad for payment is set up correctly and connected to Horizon; connecting hardware such as printers; checking stock and cash and entering onto Horizon and discuss matters such as security in open plan environments. Following the office set-up a one day induction is offered to the subpostmaster and all members of staff.

66.6 In addition a comprehensive training guide is sent to the branch for the subpostmaster and all staff to use, the following onsite training and support is offered to subpostmasters:

- (a) 6 days if the subpostmaster has 1-2 members of staff;
- (b) 7 days if the subpostmaster has 3-4 members of staff; and
- (c) 8 days if the subpostmaster has more than 5 members of staff.

66.7 Following completion of the onsite training a follow up balance is arranged 7 days later to address any issues that have arisen in completing transactions and using Horizon. After a further 1-2 weeks the Field Team Leader (see paragraph XX), who is the line manager for the trainer, will telephone the subpostmaster to seek feedback on the training and establish if further support is required.

66.8 Post Office will arrange a site visit to the branch to address matters such as product knowledge, transactions and any training needs at intervals of 1 month and 3 months after the branch is transferred/converted. Post Office will also arrange an audit 6-9 months after the transfer/conversion to verify stock and ensure its regulatory and business processes are being properly followed.

New Main Operator

66.9 Subpostmasters who operate under the New Main Operator model tend to sell financial products such as insurances and life cover as well as passports.

66.10 Prior to the transfer/conversion of the branch the subpostmaster and their staff are provided with a Distance Learning booklet to work through which includes 6 compliance workbooks to complete covering anti-money laundering, financial services, data protection, mails integrity, dangerous goods and homephone and broadband.

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- 66.11 A 7 day CTO class training session is offered to the subpostmaster and up to 50% of his/her staff. It is the responsibility of the subpostmaster to feedback the training to the remainder of their staff. An additional day is offered to cover non-core products for branches which will offer such products. Following completion of this session an engagement evening with the Sales Capability Manager is arranged for the subpostmaster and all their staff to attend. The Sales Capability Manager provides coaching on selling financial products. The Sales Capability team then arrange a 2 day workshop for the subpostmaster and one member of staff to cover sales training. It is the responsibility of the subpostmaster to feedback the training to the remainder of their staff.
- 66.12 When the branch is ready to "go-live" an office set-up day is arranged (split over 2 days) with the branch opening at 1.00pm on "go-live" day. A Field Support Advisor ("FSA") (see **further at section XX below**) will attend the "go-live" day to provide assistance (an additional FSA will attend if there is more than 6 staff). Additional onsite training and support is provided for 6 days following the "go-live" day and the branch will receive a training guide. A follow up balance is arranged 7 days after the onsite training is completed to address any issues that have arisen in completing transactions and using Horizon. After a further 1-2 weeks the Field Team Leader will telephone the subpostmaster to seek feedback on the training and establish if further support is required.
- 66.13 Post Office will arrange site visits to the branch to address matters such as product knowledge, transactions and any training at intervals of 1 month and 3 months after the branch is transferred/converted. Post Office will also arrange an audit 6-9 months after the transfer/conversion.]

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Support for subpostmasters

NBSC

67. The Network Business Support Centre ("NBSC") was established on 15 December 1999 to help and support subpostmasters and their staff with customer transactions and navigation of Horizon. NSBC can support subpostmasters with a wide range of issues such as providing assistance with transactions carried out through Horizon, navigation, how to address and deal with mistakes and any issues arising out of the weekly branch trading statement.
68. NBSC is open 6.00am to 11.00pm Monday to Saturday and 7.00am to 5.00pm on Sundays and Bank Holidays. Therefore, NSBC is available to support subpostmasters and their employees during and after the opening hours of their branches. New NBSC staff receive a 4 week training course and 2 week floor support. Ongoing training is provided to NBSC staff on new products and services as they are introduced. Through quality monitoring and coaching Post Office identifies any gaps in training and provide further support to advisors.
69. Post Office currently employs 70 people to sit within NBSC and receive calls, undertake second line support (where a query cannot be addressed during the telephone call, second line support will liaise with Post Office product teams to source the answer) and carry out administration roles. NBSC staff are experienced in Horizon and how branches operate. NBSC receives 1,700 calls a day, 11,000 calls a week or 600,000 calls a year (based on data obtained for 2012/13). NBSC operates a two tier escalation process; If the NBSC advisor is unable to resolve the query/issue with the caller, the call is escalated to tier 2 where more expert advice will be provided. If this still does not resolve the issue the Branch Support Team will decide if further training or face to face branch support is required. The Branch Support Team are an administration team who provide further tier of support to arrange training or intervention to assist branches outside of NSBC's remit.
70. 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.
71. In addition to NBSC, subpostmasters can access Horizon On Line Help and call the Horizon Service Desk which is managed by Post Office's Service Management team - waiting for info from Steve Beddoe on Horizon helpline.

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- When would NBSC transfer calls to the Horizon Help Desk?
- Does the Horizon Help Desk ever transfer calls from subpostmasters to NBSC and if so when would Horizon Help Desk transfer calls to NBSC?
- Do Horizon Help Desk and NBSC have any relationship or interaction i.e. do they share reports, meet to discuss issues etc or are they completely standalone?

Field Support

72. Post Office has a large network of branches and subpostmasters which is currently managed in the following way:

72.1 **The Top 2000** branches, which are usually the largest branches with the highest sales potential, are managed by an Area Sales Manager ("ASM"). These branches receive face to face visits from the ASM on a regular basis (at least monthly), primarily to assist with improving business and sales performance, but other non-sales issues are also addressed if required. Whilst the ASM is trained to be a sales coach, they are not considered by Post Office as "trainers" and would go to other "expert domains" such as the Field Support Team to obtain assistance for subpostmasters with, for example, balancing issues and using Horizon (see paragraph xx below). The subpostmasters of these branches are also invited to attend Quarterly Business Up-dates where a range of topics are discussed. Usually about 40-50 branches attend each session and there are at least 2 events held in each of the 7 regions (North East, North West, East Midlands, West Midlands, South West and London, Wales and Scotland and Northern Ireland) each year. If a branch has also converted to a MAINs contract¹, then the subpostmaster will also be invited to take part in the "Breakthrough" programme. This involves intensive on-site support post conversion by 3 ASMs. The purpose of this training is to assist with the mind-sets and behaviours of the subpostmaster and their team to ensure that the income of the branch is retained and maximised.

72.2 **The Next 2000** branches, which are selected either because they have the sales potential or because the geographical location is such that it is not cost effective to be managed by an ASM as part of the Top 2000 branches (for example branches located in remote parts of Scotland, Devon and Cornwall), are actively account managed from a sales perspective by the Telephone Account Management team. Face to face visits do not routinely occur (unless there are, for example, specific issues to address), but the Telephone Account Management team make regular calls (usually every 2 weeks) to the branch to monitor sales progress. The team can also refer branches to be visited by a Regional Sales Trainer who can visit to coach the subpostmaster and their staff on sales.

¹A MAINs contract is a type of contract that some branches where migrated to as part of the Network Transformation Programme (further detail of the Network Transformation Programme is available at paragraph xx).

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- 72.3 **Remaining branches** These branches are classed as "Branch Support" branches. They are not visited pro-actively and do not have a manager assigned to them. Their first point of contact is NBSC where they can seek assistance with issues such as balancing queries and resolving mistakes. If NBSC cannot resolve the query, there are a number of escalation points depending on the nature of the issue and, ultimately, if it cannot be resolved over the telephone a visit by a Field Support Advisor (see paragraph xx below) can be arranged.
73. Post Office has a dedicated Field Support Team which is responsible for induction and on-going transactional training for all subpostmasters. Currently the team consists of 227 Field Support Advisors ("FSA") and 18 Field Team Leaders ("FTLs"). FSAs are multi-skilled advisors who provide support to the network of branches. This includes delivering training, subpostmaster queries and auditing. FTLs are the FSAs line managers. The number of FSAs and FTLs has doubled from 2010 when the team expanded to cope with the Network Transformation Programme (the "NT Programme"). The NT Programme is a programme to deliver £1.34 billion of investment to transform the branch network. It involves the migration of some branches to convert to either MAINs or Local operating models (who will receive significant investment from Post Office). The remaining branches will remain on the current subpostmaster contract.
74. The team is responsible for matters such as:
- 74.1 Delivering classroom training (a 5-8 day course) to all new subpostmasters, who are going through the NT Programme. This training takes place before a new subpostmaster starts work in the branch and further detail is set out at paragraph xx.
- 74.2 Training on site following a branch transfer. FSAs will attend the branch for a number of days after the transfer and will cover a range of topics so that the branch can operate effectively. This will be followed up with site visits, telephone calls and an audit.
- 74.3 Requests from branches for remedial training from FSAs throughout the year. This training is delivered as and when requested on a wide range of topics such as ATMs, DVLA transactions, balancing issues and unexplained losses. The team received 863 requests for extra support in 2013. Generally the subpostmaster will receive the training and the subpostmaster is then responsible for training their own staff. However, each request for training is considered on a case by case basis and Post Office endeavours to provide the best support necessary to address the issues raised by the subpostmaster.

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- 74.4 Undertaking Compliance and Financial audits which also includes providing further training to subpostmasters on matters that arise out of any issues identified by the audit. In 2013 there were over 3,000 compliance audits undertaken and cash and stock checks were completed in 2,873 Post Office branches.
75. The Field Support Team is not the only team within Post Office which provide training and support, either on a face to face basis or remotely via the telephone, for example:
- 75.1 **Mails Development Managers** were established in 2010 to visit branches which receive high volumes of mail. They train these branches on products and sales to increase business growth in this area.
- 75.2 **The Branch Standards Team** was established in 2009 and is a telephone-based intervention team. The teams contacts branches regarding a wide range of performance issues. Whilst the purpose of the call is to notify the branch of any errors, they also ensure that the branch knows the correct procedures to follow. If the branch requires further support at any time, the team request a visit by an FSA via the Branch Support Team [please provide a summary of what the Branch Support Team does as opposed to the Field Support Team?].
- There are also a number of teams across Post Office who come into contact with subpostmasters (such as product specific teams like the national lottery team) and may feel that a visit or further training would be beneficial for support. These teams can request further visits and training for subpostmasters through the Branch Support Team who will decide the most appropriate resource to resolve the issue.
76. Post Office has gone through a number of structure reviews which have influenced the support Post Office provides to subpostmasters and their branches. These reviews have been driven by various cost challenges and were often determined by Post Office's funding from the UK government for its network of subpostmasters as well as commercial pressures. As a result, Post Office's approach to structuring its agency relationships with subpostmasters has changed over the years, for example:
- 76.1 **Up to 2005** - branches were either designated Urban or Rural. Each Urban branch and the largest of the Rural branches was assigned a Retail Line Manager (each Retail Line Manager would manage around 40-60 branches). The smallest of the Rural branches would be managed by a Performance Advisor (each Performance Advisor managed approximately 100 branches). Both Retail Line Managers and Performance Advisors were responsible for performance. The Post Office training team which sat within Post Office's HR department was responsible for matters such as transactional training.

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- 76.2 **2005-2006** - the network of subpostmasters was operated under a structure of Diamond, Platinum and Gold. This structure was known as a Sales and Service structure. Most branches operated under the Diamond or Gold network. The structure had a series of Sales Managers and also had Area Performance Managers. Again, most branches had an allocated manager who would visit and the training team were an extra resource to use for matters such as transactional training.
- 76.3 **2006 - 2008** - in 2006 there was a full review of Post Office's structure. Sales Managers were replaced by either Commercial or Community Business Development Managers ("BDM"). Each branch had a BDM assigned to it. In the Commercial network, the BDM would manage about 40 branches and in the Community network about 100 branches. The Commercial Network concentrated largely on sales and the Community network was responsible for picking up non-sales issues. The Branch Support Team was also established to assist with sales issues. It was also at this point that the Training team were renamed Network Field Support Advisors.
- 76.4 **2008** - the financial audit team merged with the Network Field Support Advisor team so Support Advisors would conduct both training and audits in branches.
- 76.5 **2009** - in around 2009 Post Office took the decision to remove the BDM role and the Area Sales Manager structure was created and, as a result, if a smaller branch required a site visit it would need to be requested from NBSC.

Auditing

77. In order to monitor and validate performance Post Office will often conduct audits of branches. This allows Post Office to assure and verify its assets which are held in branches and to ensure compliance with regulatory and business requirements.
78. Audits can take place:
- 78.1 when a risk at a branch has been identified (eg. the branch is continually suffering shortfalls);
 - 78.2 on the transfer of the branch to a new subpostmaster (a further audit will often take place 6-9 months after the date of transfer); or
 - 78.3 following a robbery or burglary.
79. As it is not possible for Post Office to visit and audit every branch each year, it also undertakes random sampled audits whereby branches are selected at random to be audited. Whilst this has the benefit of validating the stock held within a branch and ensuring Post Office's systems and practices are being adhered to, it also assists Post Office with risk profiling e.g if 5% of branches

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randomly selected show a particular discrepancy it could be projected that Post Office is exposed to that discrepancy across 5% of its branches.

80. Whilst the precise nature of the audit will depend on the reason for the audit (eg. if it is as a result of a robbery, audits are carried out to verify the loss suffered, primarily an audit consists of an inspection of the cash and stock held by the branch. This may be followed by a Compliance Audit to ensure regulatory and business requirements are met. Audits are undertaken on an entirely objective basis and will include checks such as:
- 80.1 for branches with paystations or lottery terminals, ensuring any overnight Transaction Acknowledgements (an automated way to account for transactions carried out for clients such as Camelot, see section [xxx]) have been properly accepted;
 - 80.2 checking the cash declaration for the previous trading day;
 - 80.3 counting and recording the cheques held in the branch against the record maintained on Horizon;
 - 80.4 verifying the currency held in branch; and
 - 80.5 counting and recording the amount of stock held in branch against the record maintained on Horizon.
81. The results of the audit are discussed with the subpostmaster and, in the event of financial irregularities, may result in the subpostmaster being suspended or being asked to "make good" the loss i.e. to pay the loss to Post Office from the subpostmaster's own funds. Alternatively, transaction corrections may be required (see section XX above) and if compliance issues are identified this may be followed up by the Branch Standards Team who will identify and assist the subpostmaster in rectifying the compliance issues. If an issue cannot be rectified by the Branch Standards Team, the Team can arrange for a Field Advisor to visit the branch and/or for further training.

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Possible reasons for balance discrepancies

82. In Post Office's experience there are a variety of reasons why a branch may encounter a discrepancy between the amount of cash and stock on hand and the amount of cash and stock recorded on Horizon - this situation is commonly referred to as a "balancing discrepancy".

83. It should be noted that some of the situations below may cause a gain for a subpostmaster or only cause a temporary loss. However, this can cause real losses to be hidden:

83.1 If an error causes a surplus of cash in the branch, this may off-set a smaller loss caused by another error. In that scenario, the loss error may not be revealed, as the overall branch accounts will balance or show a surplus; or

83.2 If the surplus error is later discovered and corrected via a TC, then in a later version of the accounts there may be a loss even though all transactions in that later period have been conducted correctly.

Example:

A branch suffers two errors, one creating a £100 gain and another causing a £100 loss. At the end of the trading period, the branch's accounts will balance as the two errors effectively cancel each other out for balancing purposes.

If in the next trading period the surplus error (i.e. the gain of £100) is discovered, a TC is sent to the branch which increases the amount of cash recorded in the branch accounts. If all the remaining transactions throughout the rest of that trading are conducted correctly the branch will still show a loss at the end of the trading period due to the TC. Therefore, whilst the loss of the branch shows in the current trading period, the error which caused the loss occurred in the previous trading period.

Miss-key

84. A miss-key is the term used when staff enter the wrong value of a transaction into compared to the actual amount of the transaction. The difficulty with a mis-key error is that only the employee who conducted the transaction will be able to prevent or retrospectively identify this error.

Example:

A personal banking customer may wish to deposit £1000 into their account and the person serving the customer mistakenly enters £10,000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.

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In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank who in turn contacts its customer. The customer will be asked to confirm the amount deposited at the branch. However, the receipt printed from Horizon and provided to the customer will show a deposit of £10,000 and, therefore, the rectification process relies largely on the action of the customer and their bank.

Unless it can be agreed with the bank to reverse the transaction, there will be a real loss of £9,000 to Post Office as Post Office will need to account for the full £10,000 as the customer's account will have been credited with £10,000.

Mixing retail and Post Office business

85. Generally, a branch must keep physical separation between retail and Post Office cash. Mixing these two sets of cash can lead to Post Office cash being lost to the retail business as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

Giving money out instead of accepting money

86. At the end of a customer transaction, payment needs to be made to or received from the customer. Even if the transaction is correctly recorded on Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to the customer.

Example:

A business banking customer may present documentation to deposit £1000 into their business banking account. If at the end of the transaction £1000 in cash is given to the customer instead of taking £1000 in cash from the customer there will be a shortage to the branch of £2000, made up of the deposit entry £1000 being correctly input onto Horizon (Horizon then expects to receive £1000) and the settlement out to cash of a further £1000 which will be deducted from the cash in branch.

Accidental loss

87. Losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops which is snatched by a customer without branch knowledge.

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88. In the first two of these examples the honesty of the finder and the ability to identify the money as coming from the branch is required to return the money to the branch.

89. In the third example unless the person is caught in the act of snatching the cash it is probable that the loss would only be discovered at the end of day cash declaration or at the time of completing the Branch Trading Statement. The branch staff may be unaware of how the loss had occurred.

Cash Declarations

90. As described at **XX**, at the end of each day a cash declaration should be made by subpostmaster. If the subpostmaster incorrectly counts cash or does not follow the correct procedure when dealing with cash remittance pouches, the wrong amount may be declared creating a discrepancy between Horizon and the amount of cash held in branch.

Miscounting cash on hand

91. Cash must be physically counted at the end of each day and when completing a Branch Trading Statement. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether. When counting cash quickly a bag of coins or a bundle of notes can also be missed.

92. Another instance of where this can happen is where a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. However a few Post Office products, such as lottery scratchcards, are permitted to be sold from the retail business. However, it is the subpostmasters responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.

93. Cash remittance pouches that have also been made up in preparation for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure and, therefore, the branch would be declaring a gain in this instance.

Cash remittance errors

94. If there is mistake made between the amount that is remmed in or out and what is received or sent by or to the Post office cash centre, then this will lead to a branch discrepancy.

Commented [AP67]: How is this different to "cash declarations" above?

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Example:

If a branch has bagged up £25,000 to send to the cash centre but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000. If the cash has left the branch then the mistake cannot be rectified by the branch. The cash will be counted at the cash centre and a Transaction Correction will be sent to the branch to rectify the branch account.

95. If a branch has an ATM machine, then it will receive a separate cash remittance for ATM. This is because the notes in the ATM machine have to be prepared to a certain standard to meet regulations and, therefore, cash used over the counter cannot be transferred into the ATM without the prior consent of the Cash Management Team. **- no error occurs here, move section or delete?]**

Stock remittances

96. Branches receive their stock (postage, MVLs etc) from Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking that the amount of stock received matches the advice note delivered with the order and remitting the stock onto the correct lines in Horizon.
97. Branches are required to return some value stock items back to Swindon. This is usually connected to Special Stamps which should be withdrawn from sale. The branch has to remove the stamps on Horizon and return the amount via the same method as receipt. Swindon will, therefore, receive and process large amounts of stock and only check 10% of stock returned. Errors can therefore be made in placing the wrong amount of stock into remittance pouches or inputting the wrong value of the remittance on Horizon.

Cheque handling

98. Branches can accept cheques as payment for certain products and services. Customers can cash personal cheques up to a certain amount or accept deposits for certain partner banks. There are set procedures that must be followed in branch at the end of each day to ensure that the cheques are handled correctly, the customer's bank account is debited accordingly and Post Office can settle the client accounts. Typically there are two scenarios where subpostmasters do not follow the operational process which can cause a loss:

- 98.1 A cheque has been accepted for a non-cheque acceptable product (i.e. foreign exchange sales). By accepting payment by cheque

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for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record.

- 98.2 The method of payment has not been correctly recorded on Horizon.

Example:

If a cheque is presented by a customer to pay for a transaction, but the transaction is accidentally settled as a cash transaction, the value of cheques held in the branch recorded by Horizon will not match the value of the actual cheques held in the branch. At the end of each day a cheque listing is printed from Horizon. This printout should be checked against the cheques held in branch and if it does not match, Horizon should be corrected before remitting out the cheques to Post Office. After remitting out the cheques, a further cheque listing should then be printed to confirm that no cheques are held in branch. If a branch has not ensured that the cheques in branch match Horizon's record before remitting out the cheques, then the cash in the branch will show a shortfall and the amount that is received at the cheque processing centre will not match the amount that has been entered onto Horizon. This is because Horizon calculates how much cash should be in a branch based on the "cash" settlement option that is pressed at the end of each transaction. Therefore, if the "cash" option has been pressed instead of the "cheque" option, Horizon will expect there to be more cash in the branch than is actually held. This may generate a Transaction Correction to correct the account unless the branch reverses the transaction and records it accurately as a cheque transaction.

99. Branches must follow a process to ensure that the amount of cheques recorded as held in branch balances to zero. This process is called "cutting off". If the cheques are not "cut off" at the end of the day the cheque listing on the following end of day procedure will not agree with the actual value of cheques held in branch. This is corrected in exactly the same way by amending the "cheque on hand" figure to show the correct value of the actual cheques held in branch. The value of the cheques in branch is then sent out before a further cheque listing to confirm a zero entry is printed.
100. It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, Post Office will absorb this loss and not pass it on to the subpostmaster. In the vast majority of cases, Post Office either mitigates the loss caused by a lost cheque or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

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Connectivity

101. Each Horizon terminal requires a telecommunications signal in order to record transactions to the central Post Office data centres. Each branch uses the signal to communicate with a data centre where all transaction data is sent, and this in turn communicates with Post Office's clients (such as banks, DVLA and local authorities) to complete transactions. The router in each branch which communicates with data centres needs to be connected to both a power supply and a communication channel to complete customer transactions. Connectivity issues can arise for example when there is an interruption in power supply or if a user is already logged on to a terminal but attempts to log on to a second terminal using the same log in details.
102. When serving a customer, transactions for certain products send information directly to data centres during the transaction i.e. moneygram, online banking, postal orders (known as recoverable transactions), and some where no interaction with the data centres happens until the customer transaction is completed on Horizon i.e. mail transaction, automated bill payments (known as non-recoverable transactions).
103. If there is an interruption to the power supply during a customer transaction, for example, a power cut due to severe weather, the Horizon user will be prompted, once the system is reconnected and the user is logged back on, with a message containing instructions on how to recover the interrupted transaction. The message explains whether the customer's transaction was completed and whether any payment needs to be received or made. The steps which need to be taken (as directed by Horizon) will depend on whether the transaction is recoverable or non-recoverable.
104. Similarly, if there is an interruption to the communication channel, for example, a telephone line cut and/or a failure to connect to the mobile backup device during a customer transaction, Horizon will prompt the user with an on-screen messages explaining what to do to and whether to cancel or retry the transaction.
105. If the Horizon user does not follow the recovery instructions correctly, this could result in a balancing error as well as having a negative impact on the completion of the customer's transaction.
106. Fujitsu proactively monitor the primary and back-up connectivity between branches and data centres. If Fujitsu is alerted to a connectivity issue it will investigate and resolve the issue. As a result, Fujitsu will not wait for the branch to contact Post Office to raise an issue about connectivity - as soon as an issue is detected it will seek to resolve it.

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Transacting from the wrong stock unit

107. Horizon has the capability to create what Post Office call stock units, which in effect are virtual tills. There are no mandatory business requirements for how many stock units a branch has to have or how they work. Basically, the cash and stock for a branch can be divided into a number of stock units for members of staff to serve customers from. Some branches operate on "individual" stock units. This means that cash and stock is transferred from the main branch stock to the individual stock unit. The person allocated to this stock unit normally has a separate draw in which to store cash and stock and they are responsible for balancing that particular stock unit. When branches have balancing problems, it is normally recommended to adopt this approach so miss-balances can be identified to specific individuals. Some branches operate "shared" stock units. In effect, this means that all the branch staff serve from one pool of cash and stock.
108. When a member of staff within a branch is serving a customer they log onto Horizon with their own user ID and password and tag themselves to a stock unit containing cash and stock (either their own individual stock unit or a shared stock unit). If a user accidentally tags themselves to the wrong stock unit and serves a customer or transfers cash or stock, then the accounts will record the transactions against one stock unit but the physical cash and stock will move in/out of a draw allocated to a different stock unit.
109. This can be corrected by either reversing the transactions and putting them through the correct stock unit, or calculating the cash value of the transactions and transferring the money to the correct stock unit.
110. In theory, there should be no net overall discrepancy to the branch as any losses in one stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear like an error has occurred in one of the stock units.

Outstanding transfers between stock units

111. Where a branch has more than one stock unit in use (please see paragraph xx for an explanation as to stock units) there may be times when cash and/or stock are transferred from one stock to another.
112. For example if stock unit AA is running short of cash, stock unit BB may transfer money to allow customer service to continue smoothly. The user in stock unit BB should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit AA) and transfer the cash out. A receipt is printed which is kept in stock unit BB to confirm this. The user in stock

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unit AA then needs to accept the cash on Horizon and print their own receipt to confirm this. At this time a Branch Trading Statement or (at any other time) a report called "Transfer Reconciliation" can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals are equal to zero.

Commented [AP68]: How does this go wrong?

113. Issues can arise when a subpostmaster tries to hide a loss. For example, if a loss of £2,000 is suffered and the subpostmaster does not want to show this on the accounts he may transfer the loss between stock units. A Branch Trading Statement should identify if this has occurred. However, a subpostmaster can still attempt to hide the loss by for example transferring the loss into a fictional cash pouch and then remming the fictional cash pouch back into a stock unit on Horizon once a Branch Trading Statement has been obtained. [Therefore, only an audit would identify a loss in this scenario - **please confirm**]

Transaction Acknowledgements

114. Some Post Office transactions eg. Camelot(Lottery)/Paystation™/Post & Go are not transacted through a Horizon terminal but instead via separate machine. However, the cash taken for these transactions needs to be accounted for on Horizon as part of the overall branch balance.
115. Transaction Acknowledgements (**TAs**) were introduced to automate the process of reconciling the data being sent directly from the separate machines and the amount of cash that should be processed through Horizon. The transactions for Camelot, paystation and Post and Go are processed overnight and the "Transaction Acknowledgement" is sent to the branch the following morning confirming all transactions that took place the previous day. For example, lottery tickets (not scratchcards) are sold to customers via the lottery terminal. The data from these sales goes straight to Camelot and the branch takes payment for the ticket and puts the cash into a separate drawer on the lottery terminal. The following day, the branch will be sent an electronic TA which will appear as a message for the first person who logs onto Horizon. The TA identifies the total amount of sales transacted through the lottery terminal for the previous day and informs the person how much cash should be transferred from the lottery till drawer to the Horizon terminal drawer.
116. Prior to TAs being launched the subpostmaster would have to obtain the relevant print outs from each machine (i.e. the lottery terminal) and then input these figures onto Horizon and reconcile any cash owed. The launch of TAs removed the need for the subpostmaster to manually input figures onto Horizon. Historically, errors could occur in manually reconciling these transactions.

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117. Even with the TA process, errors can occur if the cash from the lottery terminal is not transferred to Post Office or if the user accidentally pays the cash amount into the wrong stock unit. Alternatively, if the subpostmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.

DVLA Motor Vehicle Licences

118. Failure to follow the correct process for accounting for MVL discs (commonly referred to as tax discs) can lead to miss-balances in branch. Branches will receive MVL discs from Post Office which they have to rem into their stock using Horizon.
119. When the discs have passed the time where they can be put onto a car, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed. When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it out to Post Office, Horizon will still record the disc as being in the branch, even though the disc has been destroyed. When the branch comes to balance and a full count of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon. Whilst this does not create a cash shortage, branches are held liable for "missing" discs at a charge of £41.50 per disc because Post Office is liable to the DVLA for the "lost" disc.
120. Failure to follow the reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed on Horizon, but no payment is actually taken, the branch has to reverse the transaction and the disc. There are a number of steps that the branch needs to follow. The branch has to reverse both the disc and the payment. If they only reverse the disc out of the system then the stock of discs will balance, but the branch will miss-balance in terms of the cash.

Theft from Post Office

121. Theft by branch staff has and can occur. It may involve staff taking directly from safes or drawers where the branch has not put sufficient controls in place. These shortages would be identified when a physical cash count and declaration is made, but it is not possible for Post Office to remotely identify when the theft occurred. Some thefts may also be accompanied by an effort to disguise the theft eg. creating false transactions or gains.

Examples:

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Cash or stock may be falsely declared to give the impression that the cash or stock is in the branch when in fact it has been stolen.

"Phantom" cash remittance pouches could be created to mask an amount of cash that is missing but the pouch is reversed before the dispatch, returning more value stock than is actually received (creating a negative stock figure. For example, Horizon does not take into account the amount of cash in pouches when it calculates the amount of cash that it is expecting to be declared. So, if £10k is missing, before the cash declaration is made, the branch could make up a cash remittance pouch to cover the discrepancy of what isn't there, so in effect the branch will not show a discrepancy on Horizon. Once the cash is declared, the branch will reverse the remittance pouch from the system.

An overall branch balance is obtained by combining the cash and stock value figures. If the branch has created a negative stock figure, it will potentially mask a loss on the balance, for example, recording more cheques as being dispatched than are cleared.

122. It is possible to identify the user ID that was used to undertake these transactions but it is difficult to prove exactly when the actual theft occurred.

Theft from customers

123. Theft from customers can also occur. Although this may not necessarily result in a branch miss-balance, If the customer complains to Post Office, Post Office may compensate or reimburse the customer and, therefore, Post Office incurs a loss.

Example:

A member of staff targets a vulnerable Post Office Card account customer and confuses the customer to the extent that the staff undertake the transaction twice but convince the customer it has only happened once.

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Schedule 1: List of Products

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Schedule 2: Glossary of Post Office terms

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