Prepared for the purposes of mediation

Post Office Limited

Initial Complaint Review and Mediation Scheme

Overview of Horizon and branch trading practices

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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.

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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 and employs almost 8,000 people. 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 lottery scratchcards. A non-exhaustive list of products sold by Post Office is at Schedule 1

2. 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*

3. The majority of Post Office branches are run by 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 franchisor.

4. 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 will actually have minimal involvement in day-to-day operations. The employment of assistants is the subpostmaster's responsibility. Where below an activity is said to be undertaken by a subpostmaster, this activity could also be undertaken by an assistant in most cases.

5. Each subpostmaster owns (or leases from a third party landlord) the premises from 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.

6. 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.

7. In terms of transacting Post Office business, the subpostmaster is an agent of Post Office. In legal terms, Post Office business is a 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*

8. 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.

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9.   **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 National Federation of Subpostmasters ("the NFSP")*

10.  The NFSP is the organisation recognised by Post Office to negotiate on behalf of subpostmasters nationwide. A team of negotiators works throughout the year to improve the pay and conditions of service for subpostmasters. The NFSP negotiates with Post Office on the payment for all services and products transacted over a Post Office counter. It also works closely with Post Office on a range of other issues including post office security, operational systems and technology.

11.  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.

12.  Representation and guidance is available in the event of disciplinary action or 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*

13.  The original subpostmaster's contract was drawn up in 1994. It has been subject to several revisions over the years, but the core principles have generally remained unchanged. The terms of the subpostmaster's contract are jointly drawn up by Post Office and the NFSP and the NFSP approves all revisions to the contract.

14.  Under the standard subpostmaster's contract, subpostmasters are remunerated based on the volume of business that they transact.

15.  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

16.  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", who runs his/her business under the "franchisors" brand, bears the risk. In essence, Post Office, like retail franchisors, give subpostmasters the ability to use and operate under its most valuable asset – its "Post Office" brand. The risk Post Office bears is that through the actions of the subpostmaster and his/her assistants its brand and its goodwill may be damaged if, for example, the customer does not experience good customer service.

17.  Serious errors by subpostmasters can result in a subpostmaster's contract being terminated and/or the subpostmaster being sued through the civil courts to recover any related loss.

18.  Where Post Office discovers evidence of criminal wrongdoing, a subpostmaster may be criminally prosecuted. Typical criminal prosecutions are for either theft or false accounting (where a subpostmaster has declared transactions or stock or cash levels within the

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branch which 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 – Sophie Bialaszewski with assistance from Ruth Barker (We have previously used most of this information in press releases and other communications.     For audit – Sue Richardson*

## *Horizon*

19. 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 Limited.  Horizon is accredited by Payment Card Industry Data Security Standard and ISO 2700 and encompasses the following:

   19.1 both bespoke and of-the-shelf software packages which have been designed to allow Horizon to fulfil the needs of Post Office and subpostmasters;

   19.2 the computer hardware and communication equipment which is installed in each Post Office branch including the touch screen counter terminal and printers;

   19.3 the central data centres where transaction data is sent from each branch and stored;

   19.4 the control and monitoring systems; and

   19.5 the testing and training systems.

20. Horizon is therefore more than just software.  It is 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 Post Office data retention policy.

21. In 2010, Post Office rolled out "Horizon Online" as part of its Horizon Next Generation 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.  Horizon Online did not seek to add new functions to the existing Horizon system and changes to the Horizon interface used by subpostmasters and their staff were kept to a minimum to reduce the disruption to branches and the requirement for training (although training was still provided to approximately £50,000 Horizon users).  The main changes were "behind the scenes" and affected the service provided by Post Office Data Centres, field service and telecommunications.

22. The main roll out of Horizon Online began on 30 June 2010, following a pilot involving 1,422 branches, and completed on 14 September 2010.  As part of the roll out of Horizon Online new equipment was provided to branches, including the installation of 34,000 new counter printers (installed in over 14,000 branches).

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23. Today, Horizon is used by more than 68,000 people across 11,500 Post Office branches. On average 6 million transactions are undertaken on Horizon every day, 22 million banking transactions are undertaken every month and 2.5 billion transactions are undertaken every year with a cash value of £100 billion.

## Branch accounts

24. 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.

25. The system's core principle is that of double entry bookkeeping. 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 an increase in the amount of cash recorded as held at the branch.

26. 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 adjustment was incorrect (say it was done by accident), when the amount of cash actually 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 through 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 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.*

## Processing transactions on Horizon

27. In simple terms, most customer transactions are processed as follows:

27.1 A customer approaches the branch counter and requests certain transactions.

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27.2 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).

27.3 This process is repeated for each transaction requested by the customer (eg. at the same time as the cash withdrawal, the customer purchases £10 of stamps).

27.4 Horizon groups the transactions together in a "basket" of transactions and displays the net amount to be paid to the customer or needs to be taken from the customer (eg. in the above situation, the net cash due to the customer is £90).

27.5 If payment is to be taken from the customer, the subpostmaster selects the payment method (eg. cash, cheque, debit card, etc.).

27.6 The subpostmaster takes the payment from the customer or pays out cash to the customer as required.

27.7 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).

28. 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 be updated later in the day).

29. 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

30. A number of the products and services available at Post Office branches are provided by third parties – see the product list at section REFERENCE. These third parties are commonly referred to as "clients".

31. 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.*

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> 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

32. 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").

33. 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 Post Office [where exactly?] in order to prevent the branch holding too much cash on site.

34. 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 to send cash to the branch in order to ensure that there is sufficient cash in the branch to meet its needs.

Does POL monitor cash levels?
Who decides how much cash is remmed in/out?

35. Where cash is to be remmed out to Post Office, the branch is responsible for placing sufficient cash into the 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.

36. Where cash is remmed 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.

37. A similar process is used to rem out customer cheques received by the branch. When a customer pays by cheque, the total aggregate value of all cheques held by a branch is increased on Horizon. Cheques are then remitted by a subpostmaster to Post Office on a regular basis which reduces the value of cheques 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 Settlement – Rod Ismay

## *Reporting*

38. 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:

38.1 **Daily Cash Declaration** – staff at each branch are required to count and declare the cash stored in that terminal at the end of each day. The actual cash on hand is input onto Horizon by the subpostmaster or his assistants. Horizon then shows any "discrepancy" between the cash on hand and the amount of cash that should be in the branch according to the branch's accounts.

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.

38.2 **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 discrepancies and, where possible, corrected.

Weekly deficiencies 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.

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.

38.3 **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 a "Branch Trading Statement". This statement confirms that the cash stock shown in the accounts reflects the cash and stock held in the branch (with any discrepancy having been declared and resolved – see below).

**What happens if the branch does not rollover?**

38.4 Cut off routines – for example, validating the physical cheques held in branch to send to clearing or banking summaries to send to Santander. Validations of physical paperwork against Horizon records can detect errors or omissions.

38.5 Other reports  - trial balance snapshot, transaction logs, suspense reports, daily sales and reversals.

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## Resolving surpluses or losses of cash or stock

39.     If following the monthly rollover there is a shortage or surplus of stock, the subpostmaster will [what does the SPMR do]?

40.     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.

41.     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:

41.1 **Make good** – the subpostmaster can elect to put additional cash into the branch from their own personal funds to make up the shortage.

41.2 **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.

41.3 **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 investigated and remedied.  The subpostmaster disputes a shortage by contacting the Finance Service Centre ("FSC") at Post Office.

## Transaction corrections

42.     The FSC (often referred to as "Chesterfield" by subpostmasters) is the behind the scenes account processing centre providing daily services to clients, branches, multiple partners and customers.

43.     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 loss to Post Office.

44.     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".

45.     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:*

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*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 only person who is able to identify the error is the customer when they check their transaction receipt or bank account statement. 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.*

46. The time taken to identify the error is therefore sometimes outside of Post Office's control. However, Post Office achieved its target for 2012/13 and issued 95% of TCs within 3 months.

47. When a TC is sent to a branch through Horizon, the branch is provided with evidence of how the error has occurred. TCs are often superseded by enquiries with branch, particularly if a large number of TCs are being sent to that branch.

48. Following receipt of a TC, a branch is required to process the TC via Horizon to make the necessary adjustments to correct the error.

49. 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:

[Please provide an example of an error that would cause a surplus at end of period trading and then a shortage at the end of the next trading period after the TC is received, so that effectively the SPMR is left in a neutral position.]

Example 2:

Please provide an example of an error that, after receipt of a TC, would result in a shortage to a SPMR on rolling over.

50. 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.

51. On average around 12,000 TCs are issued to branches each month. 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. [For this period 14.9% of branches were not issued with a TC – the majority of branches experience TCs, why is it common for TCs to be issued?] Post Office takes steps to minimise the number of TCs which occur by offering training (as described [below]) and monitoring the performance of branches.

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## Crown Branches

[Rodric Williams to produce detail]

52.  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?]

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

[Please list procedural differences]

54.  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

*Sue Richardson (Training content owner), Gayle Peacock and Anne Allaker (Business Improvement Programme)*

55. 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; how to reconcile the days transactions; how to remit in out cash and stock; and how to 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.

56. 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, it is reconsidering how best to train subpostmasters on new products (currently training on new products is through workbooks and Horizon testing). Examples of the types of training Post Office has offered in the past are as follows:

   56.1 2001 – New subpostmasters received 2 days of classroom training followed by 10 days of onsite training and support. This would be followed with one day of follow up balance [what is follow up balance?].

   56.2 2002 – New subpostmasters received classroom training (Post Office no longer retain details of the length of classroom training due to the time which has past and Post Office's data retention policy). 11 days of onsite training and support was offered depending on whether the classroom training was attended. This would be followed with one day of follow up balance.

   56.3 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.

   56.4 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.

   56.5 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.

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

57. In 2012 Post Office tailored its training depending on the specific role being undertaken and rolled out further training to, for example, experienced subpostmasters who took on MAIN contracts [what is different about a MAIN contract?] as well as subpostmasters who took over additional branches but had new staff to train. The precise training given to subpostmasters will 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

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size of the branch and the types of products sold.    For example, Post Office  currently offers (amongst other packages) the following packages of training to new subpostmasters:

## New Post Office Local Operator

57.1 [what does this role consist of?].

57.2 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 – what does the Foundation Module consist of?

57.3 The subpostmaster is then offered 3 days of CTO [what does CTO stand for?] classroom training.   Following the classroom training it is the responsibility of the subpostmaster to feedback to their staff.   However, if the subpostmaster is employing 6 or more members of staff, Post Office will offer spaces on the course to up 50% of the subpostmasters staff.

57.4 Post Office schedule the equivalent of 1 days' training (normally split over 2 days depending on availability) for office set-up, [which includes setting up Horizon – is this correct? What else is involved in the office set-up?].   Following the office set-up a one day induction is offered to the subpostmaster and all members of staff.

57.5 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.

57.6 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 – please confirm].   After a further 1-2 weeks the Field Team Leader [what is the job role of the Field Team Leader, what are they responsible for?] will telephone the subpostmaster to seek feedback on the training and establish if further support is required.

57.7 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

57.8 [what does this role consist of?]

57.9 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.

57.10    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

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Capability Manager [what does the role of Sales Capability Manager cover?] is arranged for the subpostmaster and all their staff to attend. 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.

57.11 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 - please confirm]. 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.

57.12 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

*Kendra Dickerson, NBSC Relationship Manager*

## *NBSC*

Online (eg screen prompts) – What online support is there? Any feedback on how useful the online support is?

Please provide information on the Horizon helpline as well?

58.   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 weekly branch trading.

59.   NSBC is open 6.00am to 11.00pm Monday to Friday 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 – is this correct. ] WHAT ABOUT SATURDAYS? WHO STAFFS THE HELPLINE? WHAT ARE THER QUALIFICATIONS / LEVEL OF EXPERIENCE?

60.   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 highly trained and have extensive knowledge of Horizon and how branches operate.   On average 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.

61.   Do you have any call response time statistics, or any targets in terms of how long it should take to answer a call? Any other statistics? Any complaint statistics?

## *Field Support – Gayle Peacock*

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

62.1 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.   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 [what are the regions? Please list] each year.   If a branch has also converted to a MAINs contract [what is a MAINs

contract and how is it different?] , 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.

62.2 **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, training issues to address), but the Telephone Account Management team make [regular?] calls 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.

62.3 **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. Details of NBSC are set out [above]. 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 FSA can be arranged.

63. 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**"). This number has doubled from 2010 when the team expanded to cope with the Network Transformation Programme (the "**NT Programme**") [what is this programme?]. The team is responsible for matters such as:

63.1 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 [below].

63.2 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 to ensure the branch can operate effectively. This will be followed up with site visits, telephone calls and an audit.

63.3 Requests from branches for remedial training from FSAs throughout the year. This training is delivered as and when required on a wide range of topics such as new 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.

63.4 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.

64. The Field Support Team is not the only team within Post Office who provide training and support, either on a face to face basis or remotely via the telephone, for example:

64.1 **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.

64.2 **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 [can you 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.

65. Post Office has gone through a number of structure reviews which have impacted on the support and management of 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 a result, Post Office's approach to structuring its agency relationships with subpostmasters has changed over the years, for example:

65.1 **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.

65.2 **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.

65.3 **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 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.

65.4 **2008** - the financial audit team merged with the Network Field Support Advisor team so Support Advisors would conduct both training and audits in branches.

65.5 **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. *[Is there any reason why regular site visits are not necessary ? i.e. support on the internet, increased resource at NBSC ?]*

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## *Auditing*

66.    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.

67.    Audits can take place:

67.1 when a risk at a branch has been identified (eg. the branch is continually suffering shortfalls);

67.2 on the transfer of the branch to a new subpostmaster (an audit will often take place 6-9 months after the date of transfer); or

67.3 following a robbery or burglary.

68.    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. For example, it can provide a baseline measure of risk for Post Office i.e. if 5% of branches randomly selected show financial irregularities resulting in suspension it could be projected that Post Office is exposed to a risk of 5% non-compliance across all its branches.

69.    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:

69.1 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;

69.2 checking the cash declaration for the previous trading day;

69.3 counting and recording the cheques held in the branch against the record maintained on Horizon;

69.4 verifying the currency held in branch; and

69.5 counting and recording the amount of stock held in branch against the record maintained on Horizon.

70.    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.  Alternatively, transaction corrections may be required (see section xx above) and if compliance issues are identified this may be followed up by the Branch Conformance Team [who will assist the subpostmaster in rectifying the compliance issues –**please confirm**].

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## Second Sight "Thematic Issues"  [ANDY PARSONS TO COMPLETE]

- Transactions or Transaction Corrections not entered by the Sub-postmaster or staff –Spot Review 6

- Transaction anomalies associated with: - We can't respond on these without specifics from SS.   However, we should include a basic description of each transaction process.

  o CASH or STOCK Remittances;

  o Pensions and Allowances

  o telecommunication or power failures Spot Review 1

  o ATMs

  o Scratch Cards - Spot Review 22

  o MVL

  o Foreign Currency

  o Bank / GIRO / Cheques –Spot Review 12

  o Stamps, Postage Labels, Phone Cards or Premium Bonds

- Hardware issues e.  g.   printer problems, PIN pads, touch screens and PayStation – info needed on how kit is swaped out and installed.

- Limitations in the Transaction Audit Trail available to Subpostmasters – covered for green giros only so need someone to explain that there are audit trails for all products.

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# Possible reasons for balance discrepancies

Gayle Peacock / Angela Van Den Bogerd

71.    In Post Office's experience there are several 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".

72.    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:

72.1 If an error causes a surplus of cash in the branch, this may off-set a 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

72.2 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.*

*In the next trading period, the suplus error is discovered. A TC is sent to the branch which increases the amount of cash recorded in the branch accounts. Throughout the rest of the trading period, all other transactions are conducted correctly. Nevertheless, the result of the transaction correction is that at the end of the trading period, the branch has less cash than required by the branch accounts and the subpostmaster therefore perceives that he/she has suffered a loss.*

## *Miss-key*

73.    A miss-key is the term used when staff enter the wrong value of the transaction into Horizon at the manual stage of the transaction 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 £10000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.*

*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 goodwill 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.*

## Connectivity

74.  Each Horizon terminal requires a telecommunications signal in order to record transactions to the central Post Office data centre. 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 centre needs to be connected to both a power supply and a communication channel to complete customer transactions.

75.  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.

76.  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.

77.  If the Horizon user does not follow the recovery instructions correctly, this could result in a balancing error. [Are connectivity issues common? Is Horizon/Post Office automatically aware of connectivity issues or does the SPMR need to say there was an issue ? Can we provide a description of the mobile back-up device and say it reduces the chance of errors occurring?]

## Cheque handling

78.  Branches can accept cheques as payment for certain products and services. Cheques can be enchased for certain or accepted as deposits for certain Partner bank accounts. 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.

*Example:*

*If a cheque is presented by a customer to pay for a transaction, but the transaction is accidently 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 remming 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 remming out the cheques, then the cash in the branch will show a shortfall and the amount that is received in the cheque processing centre will not match the amount that has been entered onto Horizon. This will generate a Transaction Correction to correct the account.*

79.  Following the dispatch of cheques, the 'cheque line' on Horizon must be "cut-off" which will return the amount recorded as held in branch to zero. 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.

*Cash Declarations*

80.    At the end of each day a cash declaration is made by the staff in the branch for every stock unit which has been used, even if it's only been used to transfer cash or stock to another stock unit within the branch. [Can we explain what stock units are and how they work in branch?] The cash should be counted and declared accurately by denomination before 19.00 hrs. each day. It is this process which informs Post Office's Cash Management Team how much cash the branch is holding which in turn informs the Flexible Planning system [What is this?] how much cash should be sent to or returned by the branch on their next scheduled remittance.

81.    On a balance day [when/what is a balance day?] each branch should complete a daily and a weekly cash declaration. On any other day each branch should only complete a daily cash declaration. Once the cash has been counted and declared Horizon will check the declared cash against the day's transactions and inform the user whether there's a discrepancy between the cash declared and the expected cash in branch compared to the transactions for that day. 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. If the pouches are checked they need to be reversed out of Horizon and once the contents have been checked a fresh pouch should be used to make a new remittance out.

82.    If the error cannot be identified, then the discrepancy should be resolved by the subpostmaster and the cash should be re-declared to reflect any adjustments that have been made to the cash.

## Staff actions

### Logging onto and transacting from the wrong stock unit

83.    Each staff member logs onto Horizon with their own user ID and password and attaches themselves to a stock unit containing cash and stock. If a user accidentally attaches themselves to the wrong stock and serves customer or transfers cash or stock this must be corrected as soon as possible, 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.  In theory, there should be no material loss to the branch as any losses in one stock unit will be compensated by the gains in the other stock unit. A miss-balance will usually occur if the mistake is not correctly rectified.

### Miscounting cash on hand

84.    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.

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85.     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 businesss to the Post Office side, and properly counted in any cash declaration.

86.     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.

**Mixing retail and Post Office business**

87.     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.

87.1    Theft

(a)     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:*

*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)*

*Recording more cheques as being dispatched than are cleared.*

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.

(b)     Theft from customers can also occur and may not necessarily result in a branch miss-balance. 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. The staff then takes the amount which is surplus, but the branch will still balance. This process relies on customer complaints or tip-offs to identify the theft.

87.2    Giving money out instead of accepting money

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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.

*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.*

*However, this error could be as simple as miscounting cash before handing it to the customer.*

87.3    Accidental loss

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.

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.

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.

## Transaction Acknowledgements

88.    Transaction Acknowledgements (TAs) are an automated way to account for transactions carried out for the following Camelot (Lottery)/Paystation™/Post & Go. These transactions are carried out on a separate piece of equipment from the Horizon terminal and therefore the accounting needs to be accounted for on Horizon in order for the branch to balance. Prior to TAs being launched the subpostmaster would have to obtain the relevant print outs from the equipment 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 the figures onto Horizon.

89.    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. The Transaction Acknowledgement must be accepted by the first person who logs on and the corresponding net cash relating to all transactions for the relevant TA should then be paid into the stock unit in which the TA is accepted. If the Horizon user accidentally pays the cash amount into the wrong stock unit this will be identified when the end of day cash declaration is competed as one stock will be over by the amount of the TA and another stock will be short by the same amount. Alternatively, if the subpostmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.

## Outstanding transfers between stock units

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90.    Where a branch has more than 1 stock unit in use there may be times when cash and/or stock are transferred from one stock to another. 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 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.

Transaction Corrections

91.    Transaction Corrections (TCs) are electronic notices generated remotely from the FSC to correct transactions which have been carried out incorrectly on Horizon. Depending on the type of error a TC may also have a financial impact on the branch. Where this is the case the physical act of adding or removing the cash must follow the acceptance of the TC. Only individuals with manager or supervisor level access to Horizon can access and manage these messages when prompted by the FSC. All TCs must be processed before the last stock unit in the branch balances otherwise the Branch Trading period roll over cannot take place. It's recommended that TCs are processed as soon as conveniently possible. TCs with a financial impact can either be made good to cash or cheque, or settled centrally if the value is over £150 so that FSC can arrange to recover a loss by debt recovery. Further detail is provided [above].

DVLA Motor Vehicle Licences

92.    Failure to follow the correct process for accounting for MVL discs (commonly referred to as tax discs) can also lead to miss-balances in branch. Branches will receive MVL discs from Post Office which they have to rem into their stock using Horizon.

93.    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 [correct?]

94.    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.

Cash and stock remittance errors

94.1    Cash remittances

(a)    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. For example, if the 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

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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.

(b)     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.

94.2     Stock remittances

(a)     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 remming the stock onto the correct lines in Horizon.

(b)     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 rem out 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 cash and only check 10% of stock returned. If the branch does not identify the mistake quickly enough and the pouch has been destroyed then there may be way of verifying any discrepancy.

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Schedule 1: List of Products

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Schedule 2: Glossary of Post Office terms