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Post Office Ltd - SECURITY POLICY**Document Information**

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Category	Standard
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Owner	Tony Marsh, Head of Security
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Approval

Role	Name(s)	Date
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Assurance	Tony Marsh, Head of Security	
Authorised	Head of Security, Post Office Ltd	

Version control

Version No.	Reason for issue	Date
1.0	Revision of original policy, following transfer of ownership, including amendments following input from a wide range of interested parties	February 2003
1.1	Minor textual amendments to reflect required appeals process	March 2003
1.2	Amendments following discussions with NFSP, policy now agreed by NFSP negotiators	27 June 2003
1.3	Revised title of policy (formerly named Accounting Losses policy) and inclusion of section on debt recovery. Minor rewording of Section 4, following changes in version 1.2	Aug 2003

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1.4	Minor wording changes to Section 3, following input, to allow clearer interpretation	Sept 2003
1.5	Updating of audience & privacy level. Revision of NBSC involvement in Section 7 (and associated appendices), following input from NBSC	Sept 2003
1.6	Updated Section 3	Sept 2003
1.7	Further updates to Section 3 and 4 and new section on stock losses, following input from Retail Line and NFSP	26 Sept 2003
2.0	exchange of Appendices E and G to reflect the actual process in operation and minor wording change to reflect this	July 2004

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LIABILITY FOR LOSSES POLICY

(FOR AGENCY BRANCHES)

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SECTION 1 - INTRODUCTION AND PURPOSE

Aside from the direct cost to Post Office Ltd of losses, that are ultimately written-off, all losses involve associated administrative costs in dealing with the errors that cause them and managing suspense accounts, with many also leading to client penalty payments.

Given the impact that losses have on Post Office Ltd costs and therefore profits, this policy is defined to provide clear and consistent guidelines for the treatment of losses within the agency network (both commercial and community segments).

The overall purpose of the policy is to:

- ensure probity, objectivity and conformity across the network;
- clarify roles and responsibilities;
- ensure equality and fairness of treatment of Subpostmasters and other agents.

For the purpose of this policy, the term “agent” refers to all people or companies operating sub-post office branches under contract to Post Office Limited and the pronoun “he” refers to people of either gender. The term “retail line manager” applies to the Post Office Ltd employee with direct responsibility for the control of the relevant branch.

From a purely contractual perspective, the agent is responsible for all losses caused through his own negligence, carelessness or error. He is also responsible for losses caused by the actions of any assistants, managers or relief personnel employed by him. This policy, consistent with the contractual relationships between Post Office Ltd and its agents, is designed to clarify circumstances where mitigation may be appropriate and to provide a clear framework to handle individual cases.

SECTION 2 - PREVENTION OF LOSSES

The most effective way of reducing losses in Post Office ® branches is to prevent them occurring in the first place. It is, therefore, essential that there are good accounting practices in place and that business procedures are complied with in branches, as poor accounting practices may lead to carelessness and unnecessary losses.

It is the responsibility of the agent to ensure that the accounting and operational procedures and practices employed in the branch conform to the current business standard for branches of that type. It is the retail line manager's responsibility to satisfy themselves that this is the case and to provide advice, guidance and instructions where it is discovered that this is not the case.

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SECTION 3 - AUTHORITY TO HOLD LOSSES

The Subpostmaster's contract requires that losses are made good without delay. Immediate settlement is therefore the expected contractual norm.

Under circumstances where the exact cause of the loss is known and a compensating error is expected to be returned, losses may be held in the suspense account, with authority, providing that the agent has completed their own investigation and is able to show that an error notice is likely to be issued for that loss or an element of the loss (i.e. the agent must be able to detail a specific error that occurred for a specific client on a specific date and be able to provide documentary evidence e.g. from the Horizon transaction log).

Before moving a specific accounting discrepancy to the suspense account, authority must be sought from the Agents Debt Team 3, via the Network Business Support Centre (NBSC). If there is no clearly defined evidence of a known error (and, therefore, no error notice likely to be issued), authority will **not** be given.

Any authority to hold amounts in the suspense account will be for a period of up to 8 weeks. The Agents Debt Team 3 will monitor amounts held in the suspense account at the 8 week anniversary. If an error notice cannot be confirmed at this stage, the agent must withdraw the amount from the suspense account and make good the resultant loss immediately. However, if the client has accepted the error, there is confirmation that the error notice will be issued in due course or the client has not yet completed checks for the week in question, exceptionally, the authority period may be extended – subject to further monitoring by the Agents Debt Team 3 team at four weekly intervals – until the error notice is issued.

Where authority is given, it will only be provided for the amount of loss discovered above a threshold amount (£150 for those in the Rural Social/Urban Deprived segment, and £400 for those in the Rural Commercial/Urban Deprived segment). A unique reference number will be allocated to any authority, which the agent should note for audit purposes.

To give authority to hold losses within the suspense account, even with evidence of the error, is against the principle of right first time. Granting authority to hold amounts in suspense should, therefore, always be considered to be the exception rather than the norm. Agents are expected to address the underlying cause of misbalancing and must expect that any subsequent errors of a similar nature will be referred to the retail line for corrective action.

Where the agent cannot demonstrate that a loss is due to an error within a specific client's area of work but is unable to make good the loss immediately, he may put forward a case for hardship and authority may be sought to hold the amount in the suspense account (from the Agents Team 3) while the case is being considered, providing that the intention to submit a case for hardship is confirmed within 3 days of the loss and the case is actually submitted within 7 days of receiving the appropriate forms for completion.

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The case, which should be supported by the latest set of audited accounts for the agent's business, will be considered by the appropriate member of the retail line. Further details on hardship relief are given at section 4.

It should be noted that any declared gains that are withdrawn by the agent are done so on the clear understanding that the money should be available to fund any charge error notices, for the associated cash account period, received at a later date. In all instances where fully or partially compensating error notices are issued, they should be brought to account in the next available cash account and any authority to hold a loss in suspense account will consequently be rescinded.

SECTION 4 - POLICY ON RELIEF

Occasionally, there may be exceptional circumstances that allow for relief (either repaying the loss by instalments or writing-off part or all of the loss). The main circumstances where consideration may be given are:

- losses incurred by a new agent (one without previous post office experience) , during the first six weeks of appointment;
- where there is clear evidence of financial hardship.

In the case of a new agent, consideration can be given to providing partial or full relief for a loss. In considering this, it is important that the retail line manager takes account of the agent's overall performance since appointment, the size and nature of the branch concerned (including staffing arrangements before and after the transfer) and that he establishes whether or not the loss occurred whilst the trainer was present. He should obtain the trainer's view of the competency of the new agent and contact the Audit & Inspections team, who will arrange to verify the state of accounts during the period of review. In considering giving relief, the retail line manager must ensure that the agent has reviewed how the loss occurred and amended their operating or accounting practices to ensure that a similar loss cannot occur again.

The data collection proforma for assessing hardship is at Appendix B and should be supported by the latest set of audited accounts. For the purposes of this policy, hardship is defined as "Financial circumstances where the cost of making good a loss will equate to a value higher than the working capital of the business".

In agreed hardship cases, the preferred option is to allow repayment of the loss over a 12-month period. However, the repayment period can be extended (by Head of Area authority), where this is considered the most suitable option in order to prevent bankruptcy or a partial or full write off. Where repayment terms are authorised, the following criteria must be met:

- losses are made good by deduction from remuneration;
- the repayment period is a maximum of 12 months, unless an extension is authorised by the Head of Area;
- any credit error notices relating to the same cash account week as the loss must be used to reduce the outstanding balance;

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- should either party terminate the contract for Post Office services, the whole amount will be paid in full immediately.
- losses have not been incurred due to repeated poor accounting and/or poor operational practices.

It is recognised that any further losses incurred by an agent, already committed to repaying a loss over a period of time under a hardship agreement, will create a further burden. Should further losses be incurred, which cannot be made good for financial reasons, authority may be sought to hold the amount in suspense (as detailed in section 3). During this time, the retail line manager may consider allowing the loss to form part of the overall hardship repayment terms but must be mindful that repeated errors and an inability to service the consequential losses must eventually call into question an agent's suitability to continue under their contract for service.

In exceptional circumstances, relief may be given by writing-off part or all of a loss, the provisions at section 5 on the accounting impact of losses on the retail line manager's personal or team Profit & Loss (P&L) account will however apply in all cases.

SECTION 5 - WRITE-OFFS

Decisions in respect of write-offs are not taken by groups but are the responsibility of individual managers, who bear P&L accountability for those decisions. The reasons for a write-off must be fully documented and may be subject to audit.

A write-off voucher (detailed at Appendix A), signed by an authorised signatory, must be used in line with the following levels (referring to the amount written off, not the amount of the loss where that is different):

Up to £2,000	Retail Line Manager/Performance Advisor/Contracts Manager
£2,001 to £50,000	Head of Area
Over £50,000	General Manager

To ensure that write off decisions are reviewed against business policy and to review the impact on Post Office Ltd P&L, a financial concurrence must be obtained in all write off proposals in line with the following levels:

Up to £50,000	Refer to segment Finance Manager
£50,001 - £100,000	Refer to Head of Operational Finance and Planning
Greater than £100,000	Refer to Head of Operational Finance and Planning and then to Finance Director for final endorsement

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SECTION 6 - HORIZON ISSUES

If an agent feels that an error has occurred via the Horizon system, it is essential that this be reported to the Horizon System Helpdesk (HSH). The HSH will only consider the incident for further investigation if the branch has evidence of a system fault. If no evidence is available, the case will not be investigated and the agent will be held responsible for making good the loss.

System faults are very rare and are normally identified after a full investigation has been undertaken. All known system errors are managed through Network Support Problem Management. Access to Problem Management is via the NBSC. If the agent feels that the issue is not being resolved, they should flag the issue up with NBSC. If a known system error has caused a shortage, the agent should be given authority to hold the loss in suspense until the system error has been reconciled and an error notice issued.

SECTION 7 - REMITTANCE DISPUTES

As a result of Bank of England rules, all cash centres in England and Wales are now automated. Centres located in Scotland and Northern Ireland, however, do not currently face such a requirement. As a result the network of cash centres is split into automated and non-automated cash centres.

The very significant investment made by Post Office Ltd in processing and image capture and recording equipment in automated cash centres means that the accuracy of notes supplied and processed at these sites is of an extremely high standard. All processing must take place in accordance with the following criteria:

- all notes dispatched to Post Office Branches have been integrity checked (i.e. no forgeries, counterfeits, foreign notes or notes of non-circulation quality);
- the high speed notes sorting equipment is calibrated daily (i.e. a known quantity is counted and verified) and records maintained;
- the operation of the high-speed note sorting equipment is under cover of high resolution CCTV;
- adequate processes are in place to ensure the integrity of notes held in storage;
- the outward remittance process is structured in such a way that the following can be witnessed on the CCTV system;
 - the appropriate numbers of bricks are laid out on the processing bench in a way that allows remote verification;
 - the placement of bricks into the security container can be witnessed;
 - the sealing of the security pouch can be witnessed;
- the inward remittance process is structured in such a way to allow the discovery of a discrepancy to be witnessed on the CCTV;
 - the opening of the pouches and the contents should be visible under camera;
 - the inward remittance processor must remain within camera coverage at all times until a supervisor has verified the discrepancy;

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- records are maintained of any CCTV system down time.

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The notes processing procedures at non-automated sites are still considered to be fully acceptable, however the level of verification available at those sites is less than that achieved at automated sites.

As a result of this there are two separate approaches to adjudging liability for losses caused by reported discrepancies in remittances between branches and cash centres and vice versa, depending on the status of the cash centre.

Automated Cash Centres (England and Wales) will operate the following principles:

Subject to the detailed provisions above and below it is not anticipated that undetected discrepancies will occur in remittances from automated cash centres to Post Office ® branches. As a result therefore claims will not normally be expected from branches for alleged shortages in note remittances supplied by automated cash centres. Any such reported discrepancies will be subject to internal check using automated systems and CCTV images and will be rejected if the internal checks give no cause for doubt over the preparation and make up of the remittance in question.

Due to the effectiveness of the automated image capture surveillance of the inward remittance opening process at automated cash centres, it is anticipated that clear evidence will exist to support any discovered discrepancies in note remittances from Post Office ® branches to automated cash centres. As a result, therefore, all discrepancies will normally be the liability of the sending branch i.e. if a cash centre discovers a shortage within an inward remittance the discrepancy will be borne by the despatching branch.

Note: In the event of the CCTV system being out of commission or the integrity of the note sorting equipment being in doubt, the rules governing the discrepancy process revert to the non-automated cash centre rules for the given period i.e. the receiver is deemed to be correct. Cash centre processors must adhere to processes laid down when undertaking these duties; any evidence to the contrary will result in a presumption in favour of the branch.

Digital CCTV cameras cover all inward and outward note processing in automated cash centres so evidence of notes despatched and notes received can be scrutinised in the event of claims. In the event of disputes, agents will have the right to view the CCTV footage accompanied by a suitable person, such as their NFSP representative.

Non-Automated Cash Centres (Scotland and N Ireland) will operate the following principles:

For discrepancies in note remittances from non-automated cash centres to Post Office ® branches, all discrepancies will normally be the liability of the sending unit, i.e. if a Post Office ® branch discovers a shortage within a “non-automated” remittance the discrepancy will be borne by the cash centre, unless otherwise proved.

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For discrepancies in note remittances from Post Office ® branches to non-automated cash centres, all discrepancies will normally be the liability of the sending branch i.e. if a non-automated cash centre discovers a shortage within an inward remittance the discrepancy will be borne by the despatching branch, unless otherwise proved.

Discrepancy reporting and appeals

For both automated and non-automated cash centres, shortages must be reported within the following timescales:

Full block - 24 hours

Individual notes - within 5 days

The following information is required to support discrepancy claims from agents:

Missing Brick of notes

(NBSC script to confirm whether supplying centre is Automated or Non-automated and to provide a reference number)

Branch (FAD)

Dates

Pouch Number & Physical pouch retained which has been correctly opened

Evidence of pouch integrity (e.g. no tears)

Value of shortage

Name of person opening pouch and second check officer (if practical)

Missing Individual Note

(NBSC script to confirm whether supplying centre is Automated or Non-automated and to provide a reference number)

Branch (FAD)

Dates

Pouch Number

Band around notes to be retained

Value

NBSC will inform the agent where the outward notes process is automated and monitored by CCTV. If there are no known errors or problems with equipment at the cash centre the agent will be asked to make good the deficit. If, having seen CCTV footage and automated accounting system records at the cash centre, the agent is still dissatisfied with the decision and wishes to appeal, he will be asked to put his appeal in writing within 7 working days.

Appeals will be heard by a national panel, which will be chaired by a senior manager from the Post Office Ltd Security team and will include an NFSP representative, A Representative from the Retail Line and a senior manager from cash centre line management.

On receipt of a written appeal to NBSC, a questionnaire will be sent to the agent to complete. The agent must complete and return the questionnaire within 14 days of the initial call to NBSC. NBSC will inform the appeals panel of claims to be reviewed

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and will ensure that camera evidence is safeguarded until the panel are next due to meet.

The appeals panel will meet as required dependant on levels of appeals and will review all evidence for relevant claims. In particular the appeals panel will:

- Consult Transaction Processing (TP) to access the error notice history and outstanding error notice information relevant to this case, which should agree with the cash centre view;
- review relevant camera footage to ensure that necessary criteria are fully met;
- consider any other relevant information;
- communicate the decision to the agent, retail line manager and cash centre manager, with a detailed rationale to support the decision;
- record details of claims rejected/accepted and any follow up action required i.e. cash centre to review procedures where criteria were not fully met.
- advise TP of the decision and action required on relevant error notice (s)

The processes for dealing with remittance disputes are illustrated in Appendices C-G.

Note: Coin discrepancies will be dealt with as for non-automated sites, as camera footage will not be available for this element of the remittance and the likelihood of large discrepancies in this area is minimal.

SECTION 8 – STOCK LOSSES

Agents are responsible for ensuring that all stock based transactions are carried out accurately, including the return of the stock. If any instructions provided (including those provided in Operational Focus articles) are incorrectly followed, Post Office Ltd will have the right to require the agent to make good resultant losses from any failure to comply.

Post Office Ltd is only legally permitted to recover the loss which it actually suffers itself at the hands of its clients (e.g. if an agent fails to return stock with a face value of £5 but Post Office Ltd, under its contract with the issuer of the stock, is only required to pay the reprint cost of that stock and not the face value, then Post Office Ltd is only legally entitled to recover reprint costs from the agent). Each case turns on the wording of the contract between Post Office Ltd and the client and the particular circumstances of the case.

SECTION 9 – DEBT RECOVERY

Transaction Processing are undertaking a full review of their debt recovery processes, the potential tax implications for subpostmasters of outstanding debts and proposals to deduct outstanding debts from remuneration under given criteria. Discussions around these proposals will commence shortly with interested parties.

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SECTION 10 - LOSSES REVEALED AT AUDIT

Inspectors, working for the Security team within Post Office Ltd, visit Post Office ® branches as part of a programme of audits.

The agent is advised of any loss revealed at the audit and, once they have agreed the loss, is required to make it good immediately as would happen for any other cash account loss. This also applies at the final balance at a transfer audit before cash and stock is transferred to an incoming agent.

If the agent is unable to make the loss good at the time of the audit, proposals to make good the loss will be sought from the agent and these will be detailed within the audit report. Regardless of any statement within the audit report, treatment of the loss should follow the process outlined in section 3 of this policy.

SECTION 11 - NON-DEPLOYMENT OF THE POLICY

If it becomes evident that an agent has not applied this policy, e.g. holding losses without authority or beyond the authorised period, the retail line will apply the agreed corrective action process.

APPENDIX A

RETAIL LINE WRITE OFF AUTHORITY VOUCHER

BRANCH

BRANCH FAD CODE

COST CENTRE CODE

AMOUNT £

AMOUNT IN WORDS

LOSS DESCRIPTION (record narrative details below)

Prepared by Retail Line Manager/Contracts Manager

(supporting papers available for review by concurring personnel)

Name (in block capitals)

Signature

Date

Operational Concurrence

Name (in block capitals)

Position

Signature of Authorisation

Date

Position

Financial Concurrence

Name (in block capitals)

Position

Signature of Authorisation

Date

Position

APPENDIX B**FINANCIAL HARDSHIP CASE**

Please provide the following details for annual income and expenditure.

BUSINESS DETAILS**Income**

Retail Sales
Less Cost of Sales
PO Remuneration
Int Allowances
Other (please specify)

TOTAL (1)

Overheads

Wages
Gas
Electric
Telephone
Printing/Stationery
Accountancy Fees
Insurance
Motor Expenses
Uniform Business Rate
Water Rates
Rent
Repairs
Bank Interest/Charges
Loan Repayments
Taxation
Other (please specify)

TOTAL (2)

NET PROFIT (3)

(1) - (2) = 3

What do you take out of the Business as personal income (drawings)
NB: PLEASE NOTE THAT YOU WILL BE REQUIRED TO PROVIDE
SUPPORTING DOCUMENTATION TO SUBSTANTIATE THE ABOVE
INFORMATION. (e.g. LATEST SET OF ACCOUNTS).

PERSONAL DETAILS**Income**

PO Drawings
Interest on Savings
Spouses Salary
Other (please specify)

TOTAL

Overheads

Mortgage/Rent
Council Tax
Electric
Gas
Water Rates
Telephone
Motoring Expenses
Housekeeping
Clothing
Other (please specify)

TOTAL

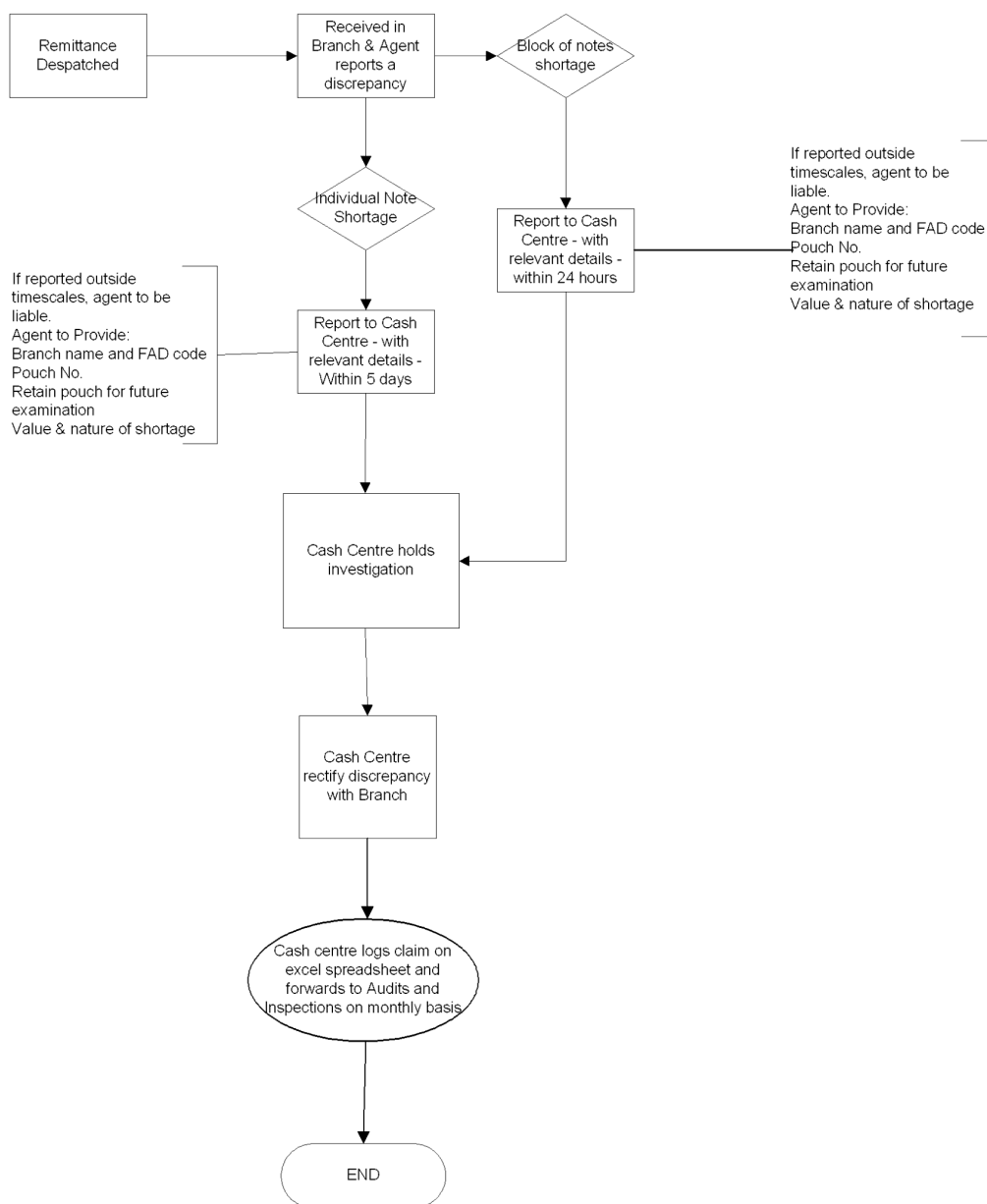
Please provide details of
funds available from your own
resources.

Bank/Building Society
Stocks/Share
PEPs/TESSAs/ISAs
Premium Bonds

APPENDIX.C

September 2003

Non-Automated Cash Centre - Outward Remittance Discrepancy Process

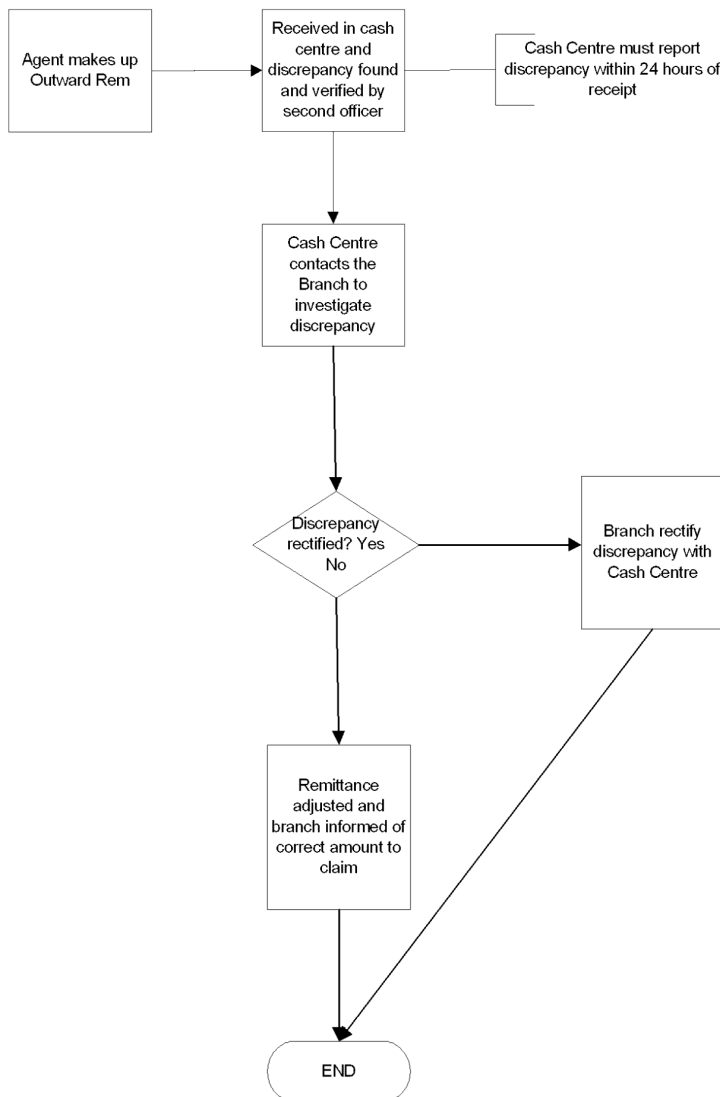


- Notes:**
- Whatever the outcome, Agent should always book value as per paperwork
 - Agent should NOT accept any pouch if integrity of the seal/pouch is broken
 - Pouch needs to be opened as directed, e.g. scissors along line indicated

APPENDIX.D

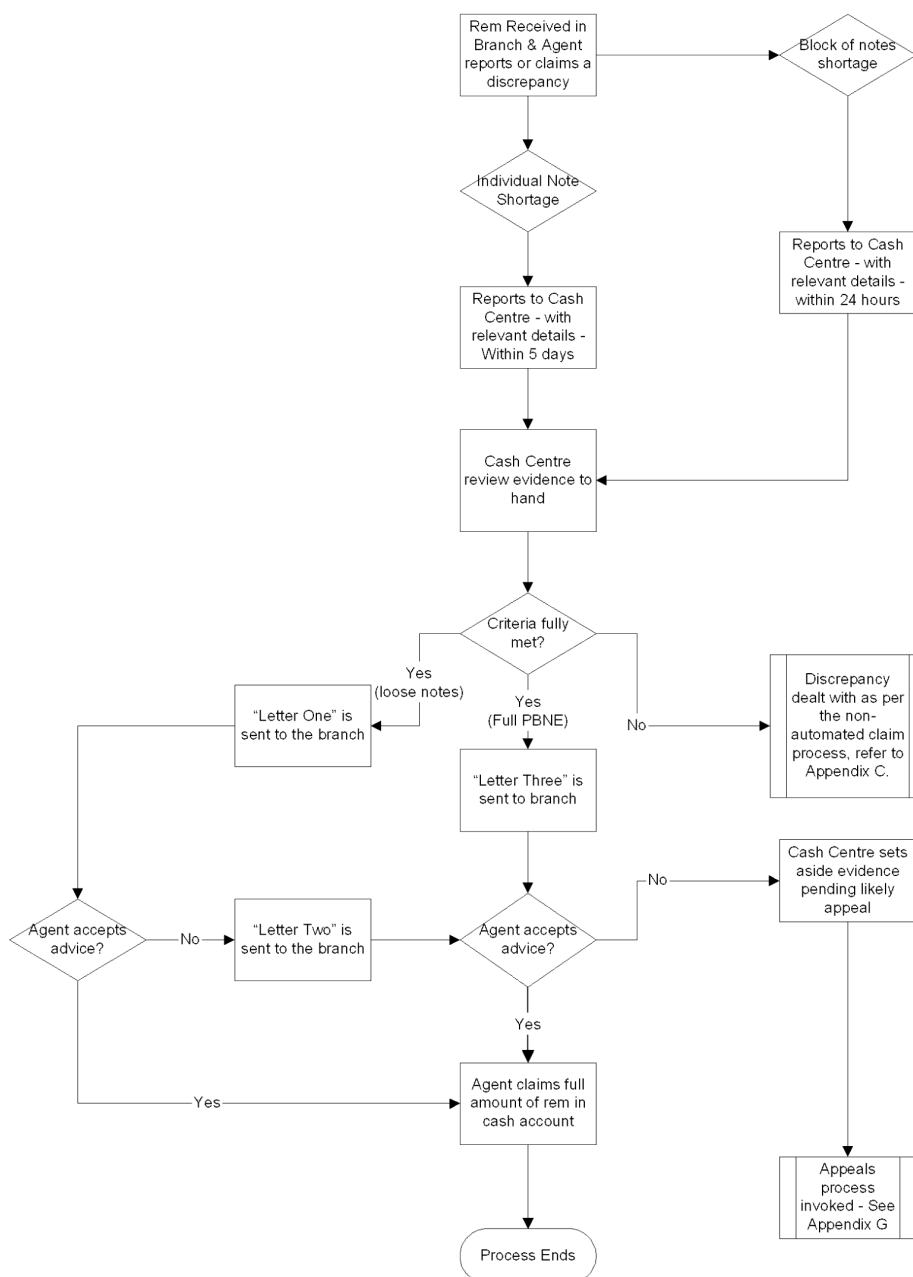
September 2003

Non-Automated Cash Centre - Inward Remittance Discrepancy Process



APPENDIX.E

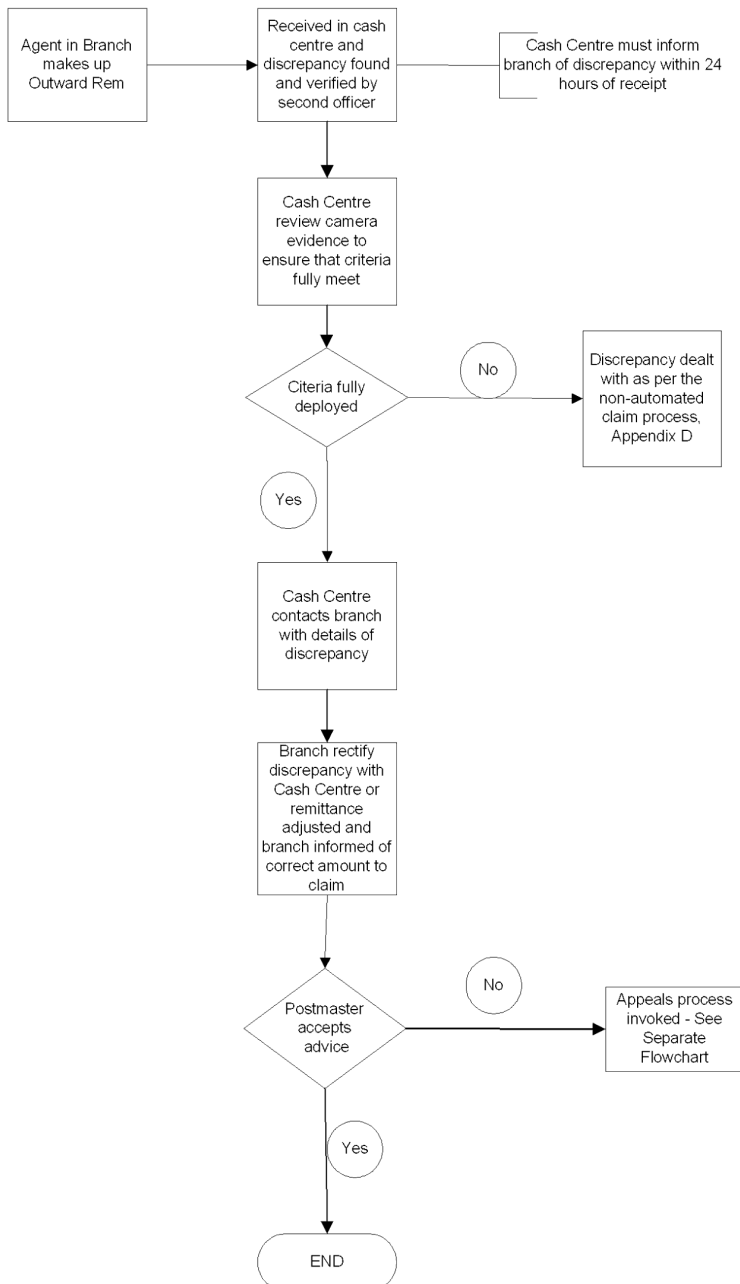
April 2004

**Automated Cash Centre
- Outward Remittance Discrepancy Process**

APPENDIX.F

September 2003

Automated Cash Centre - Inward Remittance Discrepancy Process



APPENDIX.G

April 04

Appeals Process for Automated Cash Centres

