POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	The Historical Operation of Suspense Accounts	**Meeting Date:**	24 November 2020
Author:	Mark Underwood, LCG Operations Director, Tom Lee, Financial Controller & Tim Perkins, Head of Security, Safety & Loss Prevention	**Sponsor:**	Ben Foat Group General Counsel & Alisdair Cameron, Group Chief Finance Officer

Input Sought:

The Committee is asked to note the findings from KPMG's review of Post Office's historical operation of suspense accounts and subject to legal advice, approve sharing the full findings of KPMG's reports with the Government Inquiry.

Previous Governance Oversight

- Post GLO Settlement Programme SteerCo of 1 July 2020.
- Risk & Compliance Committee and ARC of 13 July and 27 July 2020, respectively.
- Risk & Compliance Committee of 12 November 2020.

Executive Summary

1. Allegations continue to be made that Post Office may have recovered sums from Postmasters which were not 'real losses' to Post Office as they were housed in suspense accounts and taken to profit by Post Office.
2. KPMG were instructed to review Post Office's current operation of suspense accounts. Given the robust and transparent investigations process that is undertaken, their principal finding was that how these suspense accounts are operated today should not result in Post Office pursuing Postmasters for sums it had or could eventually take to profit (nor had any evidence been presented to indicate this had happened).
3. The ARC approved instructing KPMG to also review Post Office's historical operation of suspense accounts. This review involved looking at two suspense accounts - the Agent Creditor Suspense Account and the Customer Creditor Suspense Account. Their report has been uploaded to the Reading Room.
4. The Agent Creditor Suspense Account - From their review of historical practice, KPMG has found no evidence to suggest that amounts posted to this account relate to discrepancies which should have been repaid to Postmasters.
5. The Customer Creditor Suspense Account should only include sums that relate to outstanding / unmatched customer funds. KPMG's finding is that overall, a robust resolution process appears to have been in place for each product type that is posted into this account and branch affecting discrepancies should not be included within this account, which is a holding account for customer's money. However, KPMG has identified two exceptions – both of which are caused by Postmaster error or failing to follow prescribed process:

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i. Where Postmasters have accepted cheques made out to Post Office as payment for certain services but have **incorrectly** recorded this transaction as having been paid for in cash **and** the supporting information (which would include branch details) **also** then becomes separated from the associated cheque when the Postmaster sends the cheque to the Post Office Cheques Team to process.

ii. When, between November 2015 and April 2019, Postmasters **failed** to follow the then prescribed two part cancellation process for MoneyGram Transactions, which also coincided with unrelated connectivity issues.

6. KPMG has advised that further investigation into these two potential issues is difficult given the lack of available data held within Post Office and is unlikely to add any further information especially in relation to quantification to that already included in their report and this paper. Further, if a branch were to have made such errors, they would manifest themselves as shortfalls which if they dispute, the Historical Shortfall Scheme (HSS) provides a mechanism for such claims to be investigated.

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Questions addressed

What was the scope of KPMG's review, its limitations and findings?

Report

1. KPMG were instructed to perform a review into Post Office's historical operation of suspense accounts. The scope of this review was as follows:

   - Conduct research into historical suspense account operating practices pre-March 2019, holding discussions with key individuals and reviewing relevant documentation (where still available) to:
     i. Identify any additional relevant suspense accounts to the 4 which were identified during their review of Post Office's current operation of suspense accounts.
     ii. Identify any changes in the suspense account operating processes during the relevant time period, which would significantly alter the way the identified accounts operated and whether these changes could have potentially had an adverse impact on the Postmasters; and
     iii. Understand whether the historical resolution processes adopted by Post office for dealing with amounts posted into these suspense accounts were sufficient to identify potential instances where amounts should have been reconciled against branch discrepancies made good by Postmaster.
   - Undertake historical analysis of balances held within the relevant suspense accounts for the relevant time period (where data was still available) to establish whether postings to these accounts have altered, and if so the potential impact.
   - Perform a high level review of the Tier 2 investigation data arising over the past 12 months to inform their understanding of how amounts could get posted to the relevant suspense accounts

KPMG's Findings

2. KPMG's review into how Post Office currently operates the relevant[1] suspense accounts concluded that, given the robust and transparent investigations process that is undertaken, these suspense accounts should not result in Post Office pursuing Postmasters for sums it had or could eventually take to profit (nor had any evidence been presented to indicate Post Office had). This was because sums housed in these suspense accounts were either:

   - not taken to a profit and loss account; or
   - relate to unmatched transactions due to customers (not postmasters); or
   - relate to surpluses rather than shortfalls.

3. KPMG's review into the historical practices did not identify any additional relevant suspense accounts to those which formed part of their review of current practices. Further, KPMG were informed by Post Office employees, including the product team leaders responsible

[1] Accounts into which Post Office places sums that could relate to discrepancies at a branch level and from which unmatched sums are taken into the P&L account

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for posting amounts to the relevant suspense accounts that no changes had been made in the operating processes since they had been established[2].

4. As such, KPMG's overarching finding from its review into how Post Office currently operates these suspense accounts should therefore also apply to the historical operation of these suspense accounts, though it should be recognised, as you would expect, Post Office's investigation into discrepancies has evolved and improved, with the introduction of the Tier Two Investigation Team.

5. The two relevant suspense accounts identified by KPMG are the Agent Creditor Suspense Account (ACSA) and the Customer Creditor Suspense Account (CCSA). Taking these in turn:

   - The ACSA holds surplus discrepancies which Postmasters (as opposed to Post Office) dispute being due back to them. In respect of this account, KPMG's finding from its review of historical practices is that is has seen no evidence to indicate amounts posted to this account related to shortfalls which should have been repaid to Postmasters.

   - The CCSA should only have items posted to it once it has been determined that they relate to outstanding customer funds (as opposed to Postmaster shortfalls). Thus, branch affecting discrepancies should not be included within this account, which is a holding account for customer's money. KPMG's finding is that overall, a robust resolution process appears to have been in place for each product type that is posted into this account. This process identified instances where amounts needed to be reconciled against branch discrepancies prior to them being posted into this account However, KPMG's has identified two exceptions:

     a. Where Postmasters have accepted cheques made out to Post Office as payment for certain services but have **incorrectly** recorded this transaction as having been paid for in cash **and** the supporting information (which would include branch details) **also** then becomes separated from the associated cheque when the Postmaster sends the cheque to the Post Office Cheques Team to process ("**Post Office Bulk Cheques Issue**").

     b. When, between November 2015 and April 2019, Postmasters **failed** to follow the then prescribed two part cancellation process for MoneyGram Transactions, which also coincided with unrelated connectivity issues ("**MoneyGram Issue**")

   Each of these are discussed in further detail below.

6. The CCSA was established in April 2010 and the ACSA was established in January 2012. Prior to the establishment of the ACSA, such surpluses remained on Postmasters personal accounts, which were not released to Post Office's P&L account and remained on that account until claimed by a Postmaster. Prior to establishment of the CCSA, the Client Creditor Suspense Account was used to house unmatched customer monies (as well as unmatched client monies). KPMG performed a high level review of transactions posted to Client Creditor Suspense Account from 2005 (the earliest date for which data is available) to 2020 and held discussions with the relevant Post Office employees who manage this

[2] It should be noted however that there is no formal documentation detailing what operational processes were or were not in place.

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account. Limited documentation is available for the Client Creditor Suspense Account prior to 2018, but no further potential issues to those noted above were identified by KPMG.

The MoneyGram Issue: Postmasters failing to follow the two part cancellation process requirements for MoneyGram Transactions and unrelated connectivity problems

7. In November 2015, Post Office made changes to the how MoneyGram transactions were cancelled on Horizon. Postmasters were required to perform a two part cancellation process whereby the transaction had to be reversed through the Postmasters till (the Horizon EPOS) and also cancelled within the MoneyGram interface (also within the Horizon EPOS).

8. In April 2019 Post Office changed the process so that both elements were linked into a one part cancellation process.

9. KPMG were informed by the Post Office MoneyGram product team that during the same time period, MoneyGram transactions experienced connectivity issues.

10. The changes to the MoneyGram cancellation process resulted in an increased number of errors being made by Postmasters when cancelling MoneyGram transactions. In addition, connectivity issues resulted in an increase in unmatched MoneyGram balances that the MoneyGram product team needed to investigate.

11. Post Office subsequently stood up a team of 8 individuals who undertook a large-scale investigation with MoneyGram to try to resolve these unmatched items and identify customers and Postmasters who may be due money back as a result of these issues. This investigation ran during 2017 and 2018.

12. All MoneyGram transactions are date stamped, with each posting also including the branch FAD code. As such, for each MoneyGram transaction, it was possible to identify the branch where it was performed and when.

13. For each unmatched MoneyGram transaction, the investigation team reviewed whether there was any contemporaneous data from the branches identified to indicate that a MoneyGram transaction had not been cancelled in accordance with the two part process.

14. Where the data showed a MoneyGram transaction had been cancelled on Horizon but had <u>not also</u> been cancelled on the MoneyGram interface, on the date in question, transaction corrections were issued to move the loss to the Postmaster. The transaction correction included enough detail for the Postmaster to correct the original error if the money had not been collected by the recipient.

15. Where the data showed a MoneyGram transaction had not been reversed on Horizon but had been cancelled on the MoneyGram interface on the date in question and where the investigations team could identify the issue related to a branch error a transaction corrections was issued to repay Postmasters.

16. Where the data did not indicate a branch error or indicated a customer loss the unmatched sums were posted to the Customer Creditor Account.

17. Investigations did not include speaking to branches unless Postmasters contacted Post office, regarding MoneyGram related discrepancies.

18. Enquiries have been made with individuals still at Post Office who were part of the 8 person investigation team, including the Team Leader. Although weekly MI was said to be produced, reporting on progress, none has been able to be produced owing to emails not being retained (though they would likely be available via the mimecast archive). It has not been possible therefore to determine to total amount returned to Postmasters.

19. What has been determined is that £615,178 could not be matched and was posted to the CCSA in 2017. This was split across 1,804 branches with 97% having a balance of less than £2,000 and the largest balance being £5,400.

20. Given the level of investigation undertaken by a separate team, the ease with which an affected branch and potential branch shortfall could be identified and the level of exposure at each branch, KPMG's view is that the risk that the £615,178 includes a significant balance relating to Postmasters is low and this balance is more likely to relate to customer losses. However, the lack of available documentation means a residual risk remains.

Bulk Post Office Cheques Issue: Postmasters Incorrectly Processing Cheques as Cash

21. A number of products Post Office offers can be paid for through cheques which are made payable to Post Office (as opposed to the client) For instance DVLA payments, These are known as "Bulk Post Office Cheques". There is a defined process for accepting such cheques and then sending them to Post Office to process which, if followed correctly, should identify any Postmaster Bulk Post Office cheque processing errors, with a Transaction Correction subsequently issued.

22. However, if a Postmaster accepts a Bulk Post Office Cheque as payment but, in error, records that the transaction was paid for in cash, more cash will be expected in the till than is physically there.

23. If when then sending the Bulk Post Office Cheque to Post Office, the branch information which should accompany the cheque also becomes separated from the cheque – the payment is made to the recipient but as there is no matching transaction on Horizon (i.e. as it was processed as cash) it is difficult for the Cheques Team to identify which branch has made the error and for a Transaction Correction to be issued.

24. If Postmasters realise the error they have made, they are able to contact the Cheques Team to rectify the error. Further, the Cheques Team proactively attempt to identify branches where there are high value (>£500) Bulk Post Office cheques with no supporting branch information, but if the branch is not identified, the cheque value is subsequently posted to the CCSA.

25.c£134k has been posted to the CCSA as a result of Bulk Post Office Cheques Issues since it was established in 2010. Although a proportion of this sum could relate to branch shortfalls caused by Postmaster error, it will also include:

i. Customer losses: e.g. a Bulk Post Office Cheque is processed but a corresponding bill payment is not made / not made in full (for example, a DVLA transaction is not processed through the till on Horizon or the DVLA interface but the cheque is accepted and sent for processing. The cheque is banked by POL but DVLA will not process the transaction or request payment as it is not on their system

ii. Matching Errors: e.g. the transaction is recorded correctly but the Bulk Post Office Cheque becomes separated from its supporting information when being sent to Post Office for processing. The customer's payment is correctly made, the Postmaster's till will balance but when the cheque payment comes to be allocated to a client, there is no way of knowing which client should be credited as the cheque is made out to Post Office.

26.KPMG's understanding is that it is not possible to identify what proportion of the £134k is made up from matching errors, customer losses or potential Postmaster losses due to the lack of available supporting information documented on the cheque.

Disclosure Obligations

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Next Steps

30. KPMG has advised that further investigation into these two potential issues is difficult given the lack of available data held within Post Office and is unlikely to add any further information especially in relation to quantification to that already included in their report. In respect of the MoneyGram Issue, this is because of the time that has passed, personnel which have since left the organisation and lack of documentation which exists / has been retained / was ever produced. In respect of the Cheques Issue, this is for the reasons set out at paragraph 26.

31. Further, if a branch were to have made such errors, they would manifest themselves as shortfalls which if they dispute, the Historical Shortfall Scheme provides a mechanism for such claims to be investigated. As such, no further work into suspense accounts is recommended.

32. However, and although Post Office's operation of suspense accounts does not feature in the terms of reference for the Government Inquiry - subject to obtaining legal advice, the ARC is asked to approve disclosing KPMG's findings in full to the Government Inquiry. This should provide the Inquiry with a level of comfort that Post Office has not been improperly recovering shortfalls from Postmasters which were housed in its Suspense Accounts, as has been alleged.