

| Second Sight's Question | POL expert |
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| <p>1. Transaction anomalies associated with CASH or STOCK Remittances</p> <p>1.1. Please provide full details of the following:</p> <ul style="list-style-type: none"> a) all procedures and controls in place to detect and prevent damaged or counterfeit notes being issued to branches as REMs; b) all procedures and controls in place to detect damaged or counterfeit notes in outward REMs sent from a branch to a cash centre; c) all procedures and controls in place that prevent notes included in an outward REM from a branch being sent to another branch as an inward REM without being counted or checked for damaged or counterfeit notes; d) all procedures and controls used to ensure that notes issued as REMS for use in ATMs meet the relevant quality standards; e) all procedures and controls used in branch to detect counterfeit notes; | <p>Rod Ismay (or somebody in Rod's team)</p> <p>1(d) - Phil Bowdery</p> |

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| <p>f) the procedures to be followed in branch when a Subpostmaster detects counterfeit notes; and</p> <p>g) who bears the loss associated with accepting counterfeit notes?</p> | |
| <p>2. Transaction anomalies</p> <p>associated with Pensions and</p> <p>Allowances 2.1. Please provide full details of the following:</p> <p>a) data mining or similar techniques used to identify branches which have processed unusual volumes of P&A vouchers or have processed previously used P&A vouchers i.e. 'Reintroduction' fraud;</p> <p>b) all procedures and controls used to detect 'Reintroduction' fraud;</p> <p>c) any cases in the last 3 years where outgoing P&A vouchers have been stolen or lost in transit;</p> <p>d) who bears the loss associated with lost or stolen P&A vouchers?</p> | <p>Rod Ismay (or someone in Rod's team)</p> |

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| <p>e) any cases in the last 3 years where P&A vouchers have been re-presented at a branch by a person unconnected with that branch;</p> <p>f) any cases in the last 3 years where forged P&A vouchers have been presented at a branch;</p> <p>g) all procedures and controls used to detect forged P&A vouchers;</p> <p>h) who bears the loss associated with accepting forged P&A vouchers?</p> <p>2.2. Are branches required to ensure that the value of the cheques and vouchers being remitted each week matches the value of benefit payouts recorded on Horizon?</p> | |
| <p>3. Transaction anomalies following telecommunication or power failures</p> <p>3.1. Please provide full details of the following:</p> | <p>Andy Holt / Dave Hulbert - IT</p> |

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| <ul style="list-style-type: none"> a) any tests carried out that ensure that Horizon's screen-based recovery instructions are visible to the person looking at the branch terminal when a power failure or telecommunications failure (or both at the same time) has occurred or is occurring; b) the information that needs to be entered by the user to complete the screen-based recovery process; c) any tests carried out that ensure that the backup mobile telecommunications facility works effectively in all locations and in all circumstances including busy, multi-position branches; and d) any tests carried out when a branch is upgraded to Horizon Online that confirm that a reliable signal is available for the backup mobile telecommunications facility. | |
| <p>Transaction anomalies associated with ATMs</p> <p>4.2. Given the evidence that the Rejected Notes totals, in several 'Print Totals' output reports by ATMs, have on occasions become corrupted, on what grounds does Post Office assert that the Dispensed Notes totals could not also be corrupted, thereby showing that the ATM had dispensed fewer or more notes than it</p> | <p>Phil Bowdery - ATMs</p> |

really had?

- 4.3. Is it a Post Office requirement that when an ATM is installed that the branch immediately creates a separate stock unit for the ATM? How is this policy monitored and enforced?
- 4.4. In circumstances where the Bank of Ireland generates incorrect ATM cash dispensed figures for both the branch's ATM and in the figures supplied directly to Post Office, please describe the controls and procedures in place to detect and investigate this type of error.
- 4.5. Please explain why it is necessary for Sub-postmasters to manually print and enter onto Horizon, the contents of the daily '16:30 - 16:30 ATM Reports' when the same information is sent electronically to the Bank of Ireland and then to Post Office.
- 4.6. Please provide full details of the following:
- E) the guidance issued to Subpostmasters relating to the '16:30 - 16:30 Print Totals Reports' in circumstances where the rear door of the ATM is located in a retail shop or other non-secure area. Is the Subpostmaster required to close the retail shop when obtaining the '16:30 - 16:30 Print Totals Reports' in these circumstances? How does Post Office monitor and enforce this policy?
- G) how Post Office detects and deals with incorrect items reported in the ATM '16:30 - 16:30 Print Totals Reports' in

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| <p>circumstances when the incorrect figures have also been reported electronically to Bank of Ireland. Please also describe the accounting treatment of any loss that occurs in these circumstances; and</p> | |
| <p>5. Transaction anomalies associated with Lottery Terminal or Scratchcards</p> <p>5.2. Has Post Office ever issued an instruction that unused Scratchcards must not be collected by Camelot representatives? Please provide full details of the circumstances that gave rise to any such instruction being issued.</p> <p>5.3. Is it possible for a Camelot representative to activate a packs of un-activated cards without the</p> <p>knowledge or approval of the Subpostmaster? How would this unauthorised activation be dealt with on Horizon?</p> <p>5.4. Is it true that whenever a claim for a prize is made, in respect of at that point an un-activated Scratchcard; the entire pack from which that card was taken is automatically activated? Please describe the accounting treatment of any Scratchcards that are activated in this manner.</p> | <p>Rod Ismay (or someone in Rod's team)</p> |

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| <p>6. Transaction anomalies associated with Foreign Currency</p> <p>6.1. Please provide full details of how the Forde Moneychanger ('FM') system operates. Please explain in detail how FX deals were accounted for and the instructions that were provided to Subpostmasters.</p> <p>6.2. Also, how does the FM system, and Horizon, account for the difference between a transaction carried out at a Special FX rate and the expected Normal FX rate? As an example, if a customer was given €150,000 in exchange for £100,000, whereas the Normal FX rate would have only given him €145,000, how did the FM and Horizon systems account for the €5,000 difference? What flexibility was or is available to Subpostmasters when agreeing to non-standard FX rates?</p> <p>6.3. Allegations have been made about unauthorised access to transaction data by staff located at the Fujitsu office in Bracknell. As previously requested and agreed, please provide the email archives in PST or NSF format for Post Office staff working in Bracknell during 2008.</p> | Rod Ismay (or someone in Rod's team) |
| <p>7. Transaction anomalies associated with Bank / GIRO / Cheques</p> <p>7.1. We are aware that every night, a data file is sent to every bank into which its customers' have deposited funds, and from which its customers have withdrawn funds. It is then those banks that bear the</p> | Andy Winn |

responsibility to reconcile Post Office's record of what has taken place with their own records of the entries that have been processed each day into their customers' accounts.

7.2. It follows that each of those banks is expected by Post Office to take action where (for example due to telecommunications interrupts between a customer's bank and a branch's Horizon system) a customer's account has not been debited or credited by the bank when Post Office's records show that it should have been, or where a customer's account has been debited or credited by the bank when Post Office's

records show that it should not have been. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank.

7.6. We are aware that the November 2008 phasing out of two-part paying-in slips increased the possibility of error or fraud impacting Subpostmasters. Please state what compensating controls were implemented as a result of this process change and describe the consultative process that was used prior to implementation.

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

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

- a) where, during Horizon's recovery mode processing, some transactions, that were not processed, or were only partially processed, may not be properly corrected when the system invites the counter clerk to correct the errors or omissions and, if the screen instructions to the counter assistant are interrupted (as would be likely to happen where there are telecommunications or power interrupts) then discrepancies may ensue;
- b) where misalignment of screen icons results in the inadvertent execution of the wrong type or value of transaction;
- c) where Foreign Currency transactions have been incorrectly accounted for through interaction between the Forde Moneychanger System and Horizon (Note: we regard the FM system as a component part of 'Horizon'); and

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| <p>d) where system-to-system interface problems result in incomplete transaction processing e.g. where a PINpad, PayStation or other piece of equipment fails to complete its part of a transaction.</p> <p>7.10. Please provide full details of the controls and procedures that will detect these types of error and describe the accounting procedures that apply in these circumstances.</p> <p>7.12. We are aware that some Subpostmasters routinely accept high-value cheques from customers that are in excess of the monetary limits set by Post Office. Please describe the procedures that were followed prior to determining these limits and state the accounting treatment of losses that occur in these circumstances.</p> <p>7.14. Please describe the controls and processes that detect one-sided transactions in circumstances such as when a customer withdraws funds from an account at the branch counter but, although he has received the cash, the account never gets debited.</p> | |
| <p>8. Transaction anomalies associated with Stamps, Postage Labels, Phone Cards or Premium Bonds</p> <p>8.1. We are aware that occasionally postage labels are purchased by customers, but the printer fails to print correctly. Please describe the procedure whereby the Subpostmaster can recover the cost of the</p> | <p>Andy Winn</p> |

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| <p>missing label in circumstances where the missing label has not been processed as a 'reject'.</p> | |
| <p>9. Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation</p> <p>9.1. We are aware that occasionally branch Touchscreens get "out of alignment" and that in these circumstances touching one icon generates a system response associated with another icon. Please provide full details of the controls and procedures in place that detect or prevent this type of problem.</p> | <p>Andy Holt / Dave Hulbert - IT</p> |
| <p>10. Failure to follow correct procedures or mis-advice by POL's Helpline</p> <p>10.1. A number of applicants have reported that Helpline staff have said "don't worry, the problem will sort itself out"</p> <p>10.2. Please provide full details of the actions taken to investigate these allegations and confirm whether or not Helpline staff have been instructed to never say "don't worry, the problem will sort itself out", or similar words.</p> <p>10.3. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to those situations where customers leave parcels and come back some days later to settle their accounts. Specifically, what is Post Office's position in regard to the credit risk that Subpostmasters take, and the potentially 'false</p> | <p>10.1 and 10.2 – Kendra Dickinson</p> <p>10.3 – Andy Winn</p> |

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| <p>accounting' issues that those Subpostmasters risk, when they routinely allow customers (such as eBay Sellers) to drop off large quantities of parcels that are then dispatched by settling the labels to 'Fast Cash' (even though no cash has at that point been received from the customer) and then reversing all those Fast Cash payments to cheque when the customer later pays by cheque?</p> | |
| <p>11. Training and Support issues including Helpline and Audit</p> <p>11.1. Please provide us with full details as to how the following issues are dealt with during the handover to a new Subpostmaster:</p> <ul style="list-style-type: none"> a) Ensuring that the new Subpostmaster has manager/supervisor-level access rights to the branch's Horizon system; b) That every employee has a unique User ID and password; c) Ensuring that every till or employee and ATM is associated with a separate stock unit; and d) Ensuring that all branch employees are approved by Post Office; <p>11.2. We are aware that, when attempting to correct errors made at the counter, and to deal with incoming TCs, some Subpostmasters make matters worse by making further mistakes at that point. Please describe the controls and procedures in place to detect and</p> | <p>11.1 – Gayle Peacock</p> <p>11.2 – Andy Winn</p> <p>11.3 – Kendra Dickinson</p> <p>11.4-11.9 – Andy Winn</p> |

prevent or correct these types of commonly made error.

11.3. Please provide full details of the following:

- b) the extent to which that advice provided by the NBSC and HSD Helplines is monitored and quality checked;
- c) the extent to which the written reports (call logs) of the NBSC and HSD Helplines are routinely compared to the actual calls and quality checked;
- d) any surveys or quality control techniques used to assess the adequacy of training provided to Subpostmasters; and
- e) any surveys or quality control techniques used to assess the adequacy of training provided to branch staff other than Subpostmasters.

11.4. Process issues at the end of each Trading Period

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

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

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| <p>shortfall that was:</p> <ul style="list-style-type: none"> a) larger than they could 'centrally settle'; or b) only discovered after the Helpline had closed for the evening. <p>11.7. Bearing in mind that some TCs would be issued many months after the original shortfall, what options are available to Subpostmasters to 'fund' shortfalls that exceed their 'central settlement' limit?</p> | |
| <p>12. The contract between the Post Office and Subpostmasters</p> <p>12.1. Please provide full details of the following:</p> <ul style="list-style-type: none"> b) the measures Post Office takes in order to reduce the risk that incoming Subpostmasters, who take over an existing branch and its staff, may be inheriting employees who have been found to be, or are suspected of having been, incompetent or dishonest. In this context, was there, or is there now, any competency and integrity verification, performance appraisal, or formal disciplinary/warning process whereby outgoing Subpostmasters and Post Office's own Line Managers could warn incoming Subpostmasters where questions had been raised? | <p>John Breeden</p> <p>12.8 and 12.9 – Alison Bolsover</p> |

- c) the measures Post Office takes in order to satisfy itself that potential Subpostmasters have the necessary skills to meet the challenging requirement of being a Subpostmaster? and
- d) how Post Office ensures that Subpostmasters have a copy of the Contract no later than the day that they commence their position.

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

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

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

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| 13. Post Office Investigations Function | |
| 14. Surpluses 14.1 Please provide full details as to how Post Office tracks Surpluses and Shortfalls at the end of Trading Periods at both branch level and in aggregate. 14.2 Is it possible that an error which has generated a surplus in one branch can result in a shortfall in another branch? Please provide full details as to how this may occur. | 14.1 – Andy Winn 14.2 – Rod Ismay |
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| 15. Suspense Accounts 15.1. Please provide full details of all Suspense Accounts held by Post Office. Please also provide a schedule, for each year end between 2008 and 2013, showing the amounts transferred to Post Office's Profit and Loss Account (both debits and credits) for each Suspense Account held. 15.2. Please also provide a schedule, for each year end between 2008 and 2013, showing the balance held on each Suspense Account (both credits and debits). | Rod Ismay (no answers needed yet on 15.1-15.3) |

15.3.

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