



# Post Office Ltd

## Historical suspense account review

**Private and confidential**

**04 December 2020**



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# Background and scope

## Background

Post Office Limited ("POL") requested that KPMG LLP ("we", "us", or "our") perform a review into the historical operation of the suspense accounts which were identified in our earlier project looking at the current operation of suspense accounts. The aim of this work was to understand whether historically Post Office benefited as a result of its operation of its suspense accounts at the expense of Postmasters.

For the purposes of this piece of work, the following definition of a suspense account will be used:

*"A suspense account is any account into which Post Office places sums that could relate to discrepancies at branch level and from which unmatched sums are taken into the P/L account".*

The two relevant suspense accounts identified as part of our work on the current operation of suspense accounts to be included in this review are:

- Agent Creditor Suspense account ("ACS") and
- Customer Creditor Suspense account ("CCS").

It should be noted that limited documentation is available to support the historical operation of these suspense accounts. Our work has been informed by a review of available documentation and by discussions with POL staff.

## Scope of work

Our work has been performed in accordance with our Statement of Work ("SoW") dated 16 October 2020.

Our scope of work included the following:

- Conduct research into historical suspense account operating practices pre-March 2019. This research will include discussions with key individuals and the review of relevant documentation (where available) and will look to:

- Identify any additional suspense accounts which meet the definition but are no longer in operation;
- 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
- Understand whether the historical resolution processes adopted by POL 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 Postmasters.
- Undertake historical analysis of balances held within the relevant suspense accounts for the relevant time period (where data is 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 our understanding of how amounts could get posted to the relevant suspense accounts.

## Report

We present our high level summary in this report as follows:

- Summary of findings in respect of relevant suspense accounts;
- CCS potential issues; and
- CCS postings and risk to Postmasters.

Supporting our fieldwork, we have the following appendix:

- Appendix 1: Tier 2 findings.

# Summary of findings

From our work on the operation of the current suspense accounts, we identified that the ACS and the CCS had the potential to contain branch discrepancies which could be released to the P&L, potentially causing a detriment to the Postmaster.

Our findings in relation to these two accounts are set out below and on slide 7.

## Agent Creditor Suspense account - GL code 19442

- This account was established in January 2012 and holds surplus discrepancies that Postmasters dispute are due back to them.
- Only 17 postings have been made into this account between January 2012 and August 2019, totalling £67,925. The supporting information for these transactions was not available for review.
- In 2016, £46,884 was transferred out of the account. We have discussed this with POL Finance; however, due to the migration from POLSAP to CFS, POL is still investigating this transfer.
- The last transaction on this account was on 19 August 2019 for £3,985 and we understand from POL this was a part reversal of a previous posting repaying the Postmaster.
- We were informed by POL that there has been no changes in the operating process of this account since it was established.
- We were informed by POL that prior to posting into this account, as part of the resolution process, an investigation is undertaken and confirmation obtained from the Postmaster that they do not want the surplus repaid to them. A form documenting the conversation with the branch is produced to support the posting. Postmasters can request repayment from this account at a later date.
- From our review we have found no evidence that amounts posted to this account relate to branch discrepancies that have caused a detriment to Postmasters.

## Customer Creditor Suspense account - GL code 19443

- This account was established in April 2010 and holds unmatched or repaid monies from third parties.
- We were informed by POL there have been no changes in the operating process to this account since it was established.
- We understand from POL that prior to posting into this account the relevant product team undertake a detailed investigation including consultation with the relevant branch. This identifies amounts relating to branch discrepancies which are repaid to Postmasters.
- We understand that amounts are only posted into this account if the investigation cannot identify the customer requiring repayment.
- No releases were made to the P&L from this account prior to February 2020 meaning that POL had not benefited from any postings to this account.
- We have reviewed each type of transaction posted to this account to assess the risk of Postmaster detriment (see slides 8-10).
- Our review identified two areas which have the potential to impact Postmasters:
  - In November 2015, POL made changes to the MoneyGram cancellation process which resulted in an increase in Postmaster errors, some of which had the potential to detriment Postmasters. Following an investigation by POL in 2017 and 2018 remaining unmatched items were posted to the CCS.
  - Bulk POL cheques - if a Postmaster incorrectly processes the transaction as cash rather than cheque and if the supporting branch information is not received by the Cheques team detriment could be caused to the Postmaster.
- These two issues are discussed in detail on slide 7.

## Summary of findings (cont'd)

During the course of this review we have been provided with further information that identified three additional suspense accounts that were P&L impacting, namely the ATM Surplus Suspense account, the Paystation Creditor Suspense account and the Client Creditor Suspense account.

We have reviewed the type of transactions that are posted to these accounts and discussed them with relevant teams within POL. Based on the information provided to us it appears that these accounts do not house transactions that relate to branch discrepancies.

### Client Creditor Suspense - GL626200/19404

- We were informed that this account holds differences between POL clients and POL, which are held pending enquiry and resolution.
- We have been informed by POL that prior to the creation of the CCS account, this account was also used to house amounts owing to customers and settlement amounts in relation to third parties.
- We were provided with a list of transactions posted to this account between 2005 (the earliest date on the data provided) and 2014. A high level review of these transactions identified a significant number of transactions related to third party settlements or products that are now posted through the CCS account. We understand from POL these transactions were subject to the same resolution process as those subsequently posted to the CCS account and therefore do not appear to be related to branch discrepancies.
- We understand that current policy is to hold funds for three years before releasing them to P&L with approval from the account lead.

### ATM Surplus Suspense – GL626206/19422

- We were informed that this account holds customer funds that have been retracted into Bank of Ireland ("BoI") ATMs and declared as a surplus. We understand retracted transactions are still deducted from the customer's account.
- Retracted amounts are held separately within the ATM. We understand the machine will only allow two retractions to occur before a reset is required by the Postmaster.
- On identification of the surplus, the Postmaster makes a surplus funds declaration. The amount is then held in this account, and when BoI receive an inter-bank enquiry from the customer's bank, POL are charged. POL is supplied with an electronic journal by BoI which details the retracted funds.
- We understand that current policy is to hold funds on a rolling 12 month basis before releasing them to the P&L.
- The detriment is therefore with the customer whose funds were retracted into the ATM.

### Paystation Creditor Suspense - GL629122/19418

- We were informed that this account operates in the same way at the Client Creditor Suspense account, but is specifically for Paystation products only.
- The largest balance (around 50% of current balance) relates to an obsolete POL product which was sold to redeem against bill payments.
- The balances in this account appear to relate to customer funds only, and based on our enquiries, there is no indication that amounts relating to Postmasters have been posted to this account.
- We understand that current policy is to hold funds for three years before releasing them to the P&L.

# CCS potential issues

	Specific MoneyGram issue	Bulk POL cheque-related errors
Issue	<p>In November 2015, POL implemented changes to the MoneyGram process, introducing a two-part cancellation process, (one part Horizon and the second part MoneyGram). We were informed by POL staff that these changes resulted in an increase in Postmaster errors where only one side of the cancellation was processed. This, combined with unrelated connectivity issues in late 2015, lead to an increase in unmatched MoneyGram balances.</p>	<p>We have been informed that if the Postmaster makes an error and selects cash instead of cheque when processing a bill payment on Horizon a cash discrepancy will arise.</p> <p>If the branch information becomes separated from the cheque then the Cheque team will be unable to identify the branch the discrepancy arose in and the cheque value will be posted to the CCS.</p>
Factors to consider	<p>In 2017 and through 2018, a project was undertaken by POL to identify unmatched MoneyGram balances that had impacted branches or customers in order to make repayments. We requested documentation relating to this investigation. As the documentation was limited we are unable to conclude on the robustness of the work.</p> <p>We understand at its peak, a team of eight people were investigating the differences between balances on Horizon and information supplied by MoneyGram. We were informed every MoneyGram transaction can be traced back to the branch where it was processed. As part of the investigation where evidence supported a branch discrepancy rather than a customer issue, a transaction correction (TC) was processed to repay the Postmaster.</p> <p>Where the reason for the difference could not be determined or did not appear to be branch related, the amounts were posted to the CCS. £628,661 was posted to the CCS between 2017 and April 2019 across 1,859 branches. 97% of branches had a balance of less than £2,000.</p> <p><b>The balance posted to the CCS in relation to this issue between 2015 and the end of April 2019 was £628,661</b></p> <p>Given the level of investigation undertaken by a separate team, the ease with which a branch could be identified and the level of exposure at each branch, the risk that this includes a significant balance relating to Postmasters, as opposed to customers, appears to be low. However the lack of available contemporaneous documentation should be considered when assessing whether a residual risk remains.</p>	<p>We have been informed that there is a defined process for sending cheques to POL which, if followed, should identify a Postmaster bulk POL cheque processing error.</p> <p>If an error is identified by the branch, the Postmaster can contact the Cheques team to help rectify the issue.</p> <p>Both a Postmaster error in processing and the cheque becoming detached from branch paperwork is required for this issue to arise. However, we have been informed by the POL Cheque team that such instances could occur.</p> <p>The Cheques team attempt to identify branches where there are high value cheques with no supporting branch information and will proactively contact the Postmaster and correct the transaction.</p> <p>We understand from POL staff that cheque transactions posted to the CCS can also relate to POL matching issues or customers identification issues, neither of which would impact the Postmaster.</p> <p><b>The balance posted to the CCS in relation to bulk POL cheques is £134,584</b></p> <p>The above balance could relate to a customer loss, a Postmaster loss or a matching error in the POL settlement accounts. Matching errors occur where POL bank a bulk cheque and the customer's payment is processed correctly via Horizon; however, the two transactions cannot be matched due to missing supporting information. However, for this to lead to a Postmaster detriment there would need to be a Postmaster processing error as a result of which the unallocated cheque cannot be traced back to their branch.</p>



# CCS posting categories and risk to Postmasters

Posting category	Explanation of posting type	Controls in place	Potential detriment to Postmaster
<b>Santander</b>	<p>These items relate to deposits or bill payments made by customers through Santander.</p> <p>We understand supporting paperwork for these payments was sent directly to Santander by branches, and if not received, an error notice was sent by Santander to POL to correct the transaction or return the funds to the customer.</p> <p>If the investigation cannot identify a customer, the funds were posted to CCS.</p> <p>Prior to 2019, the Santander process was paper-based.</p>	<p>These payments do not result in a branch discrepancy and therefore could not cause detriment to the Postmaster.</p> <p>Transactions are now barcoded, removing the risk of lost or incorrect paperwork.</p>	<p><b>No</b>, unless a Postmaster decided, against POL policy, to repay a customer from the branch till which could cause the Postmaster to suffer a loss.</p>
<b>Personal banking</b>	<p>Postings relate to personal banking cash deposits, where the funds have not arrived in the customer's account due to lost, incomplete or incorrect paperwork submitted by the branch.</p> <p>No postings have been made to this account since 2017.</p>	<p>These payments do not result in a branch discrepancy and therefore could not cause detriment to the Postmaster.</p> <p>Transactions became barcoded in November 2017.</p>	<p><b>No</b>, unless a Postmaster decided, against POL policy, to repay a customer from the branch till which could cause the Postmaster to suffer a loss.</p>
<b>MoneyGram</b>	<ol style="list-style-type: none"> <li>Between 2017 and April 2019, there was a significant increase in postings to the CCS account following investigation of issues which started in November 2015, when POL made changes to the MoneyGram cancellation process and which resulted in an increase in errors made by Postmasters. The cancellation process was simplified in April 2019. In addition, an unrelated connectivity issue during this period increased the level of unmatched items. POL undertook a large scale investigation with MoneyGram to try to identify customers and Postmasters who were due money back as a result of these issues. In instances where POL was unable to identify who to return the funds to they were posted to the CCS account</li> <li>Since May 2019, an additional £71,265 has been posted to the CCS for MoneyGram related transactions. We understand from POL that these relate to issues with debit card transactions or incorrect recipient information and do not impact Postmasters.</li> </ol>	<p>A significant investigation was conducted during 2018 in conjunction with MoneyGram.</p> <p>Supporting documentation in relation to this investigation is limited and as a result we have been unable to assess the robustness or effectiveness of the work undertaken.</p> <p>Following the identification of the issue the two part cancellation process was amended and the level of errors significantly reduced.</p>	<ol style="list-style-type: none"> <li>Possibly, if the investigation did not identify where a repayment was due to a Postmaster or where the Postmaster did not identify the error and request a repayment.</li> <li><b>No</b> – these transactions relate to non branch affecting issues.</li> </ol>



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## CCS posting categories and risk to Postmasters

Posting category	Explanation of posting type	Controls in place	Potential detriment to Postmaster
<b>Debit card</b>	<p>These postings relate to failed debit card transactions, where funds have been taken from customer accounts, and a request for a refund has not been received.</p> <p>The majority of postings relate to self-service kiosk postage transactions, which are generally low value and are rarely claimed. Other postings relate to online transactions for Drop &amp; Go, top-ups and any other product that can be purchased by debit card (with the exception of MoneyGram).</p>	Without a customer complaint that the transaction has not completed but payment has been taken, there is no way for POL to identify the customer.	<b>No</b> , these transactions mainly relate to non branch transactions
<b>Bulk cheques – non POL</b>	If a cheque is banked where the payee is an individual rather than POL and the supporting information is separated from the cheque or contains inaccurate information, the funds are taken from the customer account but do not arrive with the payee. The processing bank then returns the customer funds to POL.	The Cheques team try to identify the correct recipient or payee from the information available	<b>No</b> , there are no postings on Horizon for these cheques and so no detriment to the Postmaster.
<b>Bulk cheques - POL</b>	<p>There are three reasons that a payment by cheque could result in a posting to the CCS:</p> <ol style="list-style-type: none"> <li><b>1. Customer affecting:</b> If the payee is POL but the transaction is not processed through Horizon then the bill will not be paid but the cheque will be banked.</li> <li><b>2. Postmaster affecting:</b> If the Postmaster selects cash instead of cheque in error (which will create a cash discrepancy) <u>and</u> the BCV (branch information) becomes separated from the cheque then the customer's bill will be paid automatically but the cheque value could be posted to the CCS and the cash discrepancy settled by the Postmaster.</li> <li><b>3. POL affecting:</b> If a bill payment by cheque is correctly processed through Horizon, but the cheque becomes separated from the supporting paperwork, it will be unclear which third party settlement account POL should allocate the funds to.</li> </ol>	<p>The Cheques team try to identify the correct recipient or payee from the information available.</p> <p>If a branch identify an error, then can request the Cheques team investigate.</p> <p>Since 2017, additional work has been undertaken to identify payees where the cheque value is greater than £500.</p>	<ol style="list-style-type: none"> <li><b>1. No.</b> The money is owed to the customer not the Postmaster.</li> <li><b>2. Possibly</b> However there needs to be a Postmaster error before amounts are owed to the Postmaster in order to correct a cash loss in branch.</li> <li><b>3. No.</b> POL have banked the correct funds (so are not disadvantaged overall) and the customer bill has been paid, but this may cause allocation difficulties within POL.</li> </ol>

# CCS posting categories and risk to Postmasters

Posting category	Explanation of posting type	Controls in place	Potential detriment to Postmaster
<b>Other - Travel insurance</b>	<p>This balance relates to an obsolete product. No postings have of this type have been made in over 6 years.</p> <p>The postings do not impact either customers or Postmasters.</p>	Not applicable as no detriment to customers or Postmasters.	<b>No</b> , as balances do not relate to customers or Postmasters.
<b>Other - Camelot</b>	<p>These postings relate to lottery tickets which are validated but not paid out. Winning lottery tickets are validated in branch, which automatically triggers a payment from Camelot to POL.</p> <p>However, the prize money may not be paid out if the customer does not present valid identification, in which case they need to apply to Camelot for the prize money who will request a refund from POL.</p>	Not applicable as no detriment to customers or Postmasters.	<b>No</b> , as balances do not relate to Postmasters.
<b>Other – remaining balance</b>	These postings relate to other balance categories, being ATM Surplus, Automated Payments, Client Settlement, Drop & Go, DVLA fleet, Link, Pre-order & Unpaid Cheques	During the period under review, there were 10 teams who looked into balances that could potentially be due back to customers or Postmasters.	<b>No</b> , unless a Postmaster decided against POL policy to repay a customer which could cause the Postmaster to suffer a loss.



# Appendix 1

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# Appendix 1: Tier 2 Findings

## Introduction

We performed a high-level review of the Tier 2 investigation data from the 12 months to April 2020, using key word searches to establish whether it was possible to identify discrepancies which may have resulted in a loss to the Postmaster.

We identified key words based on products with spikes in posting balances in the CCS.

### Key words

- MoneyGram
- Santander; and
- Payment.

The narrative was then reviewed to try to ascertain whether the investigation related to a Postmaster discrepancy which could have resulted in a posting being made to the Customer Creditor Suspense account.

We reviewed a sample of nine investigations, four relating to 'MoneyGram', two relating to 'Santander' and three relating to 'Payment'. We spoke to Tier 2 investigators in order to understand how the discrepancy arose, the investigations undertaken and the outcome.

## Findings

Of the nine investigations reviewed none related to postings that had been made to the Customer Creditor Suspense.

The issues were either resolved by the Tier 2 investigator, the Customer Care Team or the branch themselves with no loss to the Postmaster, or were found to have been caused by an issue requiring repayment by the Postmaster.

## Specific examples

One of the issues reported to the Tier 2 team related to a Santander mis-key, where the branch had entered two deposits incorrectly. Tier 2 advised the branch to follow this item up with the bank directly; if this issue cannot be resolved by the bank by recovering the funds from the customer, then the Postmaster may suffer a loss. This would not cause a posting to the Customer Creditor Suspense account.

Another investigation related to a discrepancy which the branch believed was caused by a MoneyGram transfer. The Tier 2 team reviewed all available data but were unable to determine the cause of the discrepancy, so passed the case to the escalations team to resolve. At the time of our review, the escalations team were still in the process of resolving the case for the branch. No amounts were identified in the CCS account as relating to this investigation.



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