

21 August 2014

Initial Complaint Review and Mediation Scheme

~~Provisional and draft~~

~~Not approved by POL and not discussed by the
Working Group~~

~~MEDIATION~~-BRIEFING
REPORT - PART TWO

PREPARED BY

SECOND SIGHT

~~Second Sight – 5 August 2014~~

This ~~Report~~ and accompanying documents are confidential and are not to be disclosed to any person other than a person involved in the processing of ~~Applicant's~~ Applicants' claims through the Scheme

Introduction

- 1.1. This ~~Report~~ has been prepared by Second Sight, which is the trading name of Second Sight Support Services Limited, the company appointed to conduct an independent investigation into a number of matters raised by Subpostmasters, or former Subpostmasters.
- 1.2. Part One of our Briefing Report ('Part One'), issued on 25 July 2014, describes some aspects of Post Office branch operating procedures and related functions of the Horizon system and makes reference to this Part Two of our Briefing Report.
- 1.3. ~~The purpose of this report is to expand~~This Report expands on the main common 'Thematic Issues' that have been raised by many Subpostmasters in their applications to the Mediation ~~scheme~~Scheme (the Scheme). This has been done in the interests of efficiency and in order to avoid duplication ~~of facts and conclusions~~.
- 1.4. The ~~Report~~ structure follows a modular approach, with each Thematic Issue, as broadly defined by Second Sight, forming a separate section within the ~~report. This may be added to or modified as new findings emerge~~Report. There are some topics on which further enquiries and investigations by both Post Office and Second Sight are continuing, which when finalised may be included in future updates to this Report.
- 1.5. This 'Part Two' Report is therefore a 'living document' that will be periodically updated as we develop better evidenced views on each of the matters raised.
- 1.6. The number of occurrences of each Thematic Issue, from the total population of 150 applications to the Scheme, is indicated throughout this Report using the following groupings and descriptions:

<u>Few</u>	<u>Less than 15 instances</u>
<u>Many</u>	<u>Between 15 and 70 instances</u>
<u>Most</u>	<u>More than 70 instances</u>
- 1.7. In this context, the most commonly reported issue (complaints about Training and Support) has been raised by over 130 Applicants, while the least-reported issues (concerns about Pensions and Allowances transactions and Motor Vehicle Licences) were each raised by only 13 Applicants.
- 1.8. In order to put our comments in context, the issues being considered are based on concerns raised by 150 Scheme Applicants from a total population of approximately 11,500 Branches.
- 1.9. The identification of a Thematic Issue occurs at the time that a Case Questionnaire Response (CQR) is initially considered by us. As the Scheme process continues the underlying concerns are further explored and conclusions are set out in the Post Office Investigation Report (POIR) and then in our Case Review Report (CRR). This Report describes Thematic Issues in more detail.

1.10. Comments on a draft of this Report have been provided by Post Office and by the Justice For Subpostmasters Alliance (JFSA), and we have taken account of those comments when finalising it.

1.11. In considering the CQRs submitted to us, the* seven year Data Retention Policy* of Post Office has in some cases limited the availability of evidential data. This Policy applies to both* Horizon transactional data (held by Fujitsu) *and also to other business records such as* emails, letters, memos, interview recordings*, transcripts and* Audit and Investigation Reports*.

1.12. Until* recently, Post Office did not appear to operate a 'litigation hold' *process* whereby documents that may be needed to support a complaint or investigation *are* preserved — irrespective of the seven year retention period.*

2. Process

2.1. Scheme Application Forms and CQRs included a section asking what were the Applicant's main issues of concern. As the Scheme progressed it became clear that some issues were being raised by multiple Applicants. We listed the seventeen most commonly described Thematic Issues and then referred to these throughout the rest of the process.

3. Scope

3.1. The definition of Horizon for the purposes of our work was considered in our Interim Report of

July 2013 as follows:

".... the name Horizon relates to the entire application. This encompasses the software, both bespoke and software packages, the computer hardware and communications equipment installed in branch and the central data centres. It includes the software used to control and monitor the systems. In addition..... testing and training systems are also referred to as Horizon".

Whilst we have adopted this Post Office definition of Horizon, it has been necessary to extend it so as to properly include the totality of the Applicant's experience of using Horizon. We have therefore found it necessary to also consider issues such as the Audit and Investigative processes and the Contract between Post Office and Subpostmasters.

4. ~~2-~~ The Contract between Post Office and Subpostmasters

4.1. ~~2.1-~~ This section deals with two separate issues. ~~Firstly~~First, the potential impact on Subpostmasters of some of the terms and conditions set out in the Contract and secondly, issues relating to the notification to Subpostmasters of the terms of the Contract.

4.2. ~~2.2-~~ The following extracts are taken from the 'Standard Contract' (dated September 1994) between Post Office and Subpostmasters. This is a 114-page document, that now incorporates

several post-1994 amendments. A copy of the entire document is available on request.

4.3. The Standard Contract is described by Post Office as an arms-length, commercial transaction in the nature of an agency contract.

4.4. ~~2.3~~ The Standard Contract contains a number of provisions, the most significant of which are set out below, especially those related to responsibility for losses and shortages. As a result of these provisions the contract transfers contract allocates several financial and other risks to Subpostmasters who may not have understood or appreciated those risks, particularly if they failed to seek independent legal advice before taking up their post. Observations relating to the more significant of these clauses are set out more fully below. Our comments on the clauses most relevant to our Review are made solely from a business perspective.

4.5. ~~2.4~~ The Standard Contract spells out the rights and responsibilities of both Post Office and Subpostmasters. The clauses most frequently referred to by Sub-Postmasters Applicants are as follows:

- a) **Section 17:** (in the November 2002 amendment) ~~which lists the Key Products and Services~~
~~Services~~ (also referred to as the core products and services).
- b) **Section 15:** (in the November 2002 amendment) refers to responsibility for the training of the Subpostmaster and, in turn, of the staff employed in a branch. Under this section the *Post Office undertakes to provide the Subpostmaster with relevant training materials and processes to carry out the required training of his Assistants on the Post Office Products and Services... and the Sub-Postmaster accepts the responsibility to ensure the proper deployment within his Post Office branch of any materials and processes provided by Post Office Ltd and to ensure that his Assistants receive all the training which is necessary in order to be able to properly provide the Post Office Products and Services and to perform any other tasks required in connection with the operation of the Post Office branch.*

Also... Post Office Ltd may request from time to time that where it has obligations as described above the Subpostmaster should conduct specific training (whether through written/distance learning that may require confirmation of completion or via presentations) in relation to certain Post Office Services (such as, but not limited to, money laundering). Failure by the Subpostmaster to arrange for such training to be properly applied will be deemed to be a breach of this Contract by him.

- c) **Section 1, paragraph 10:** ~~which~~ requires three months notice of contract termination from the Subpostmaster to Post Office and allows Post Office to:

~~£~~*Terminate a Subpostmaster's contract at any time in case of Breach of Condition by the Subpostmaster, or non-performance of his obligation or non-provision of Post Office Services, but otherwise may be determined by Post Office on not less than three months notice.*

In section 12 of the Standard Contract there are a number of paragraphs, as set out below, addressing responsibility for losses and shortages. These paragraphs are at the heart of nearly all of the cases being considered in the Scheme.

d) **Section 12, paragraph 12:**

The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay.

e) **Section 12, paragraph 13:**

~~£~~The financial responsibility of the Subpostmaster does not cease when he relinquishes his appointment and he will be required to make good any losses incurred during his term of office which may subsequently come to light.

f) **Section 12, paragraph 14:**

~~£~~Surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately.

g) **Section 12, paragraph 17:**

Subpostmasters may exceptionally not be required to make good the full amount of certain losses at his office. If he feels entitled to relief in making good a loss he should apply to the Retail Network Manager.

h) **Section 19, paragraph 12:** deals with enquiries by officers of the Post Office Investigation Division and states that:

The main job of the Investigation Division is to investigate, or help the Police to investigate, criminal offences against the Post Office, British Telecommunications and the Department of National Savings. The Investigation Division does NOT enquire into matters where crime is not suspected.

i) **Section 19, paragraph 19:** allows persons interviewed by Post Office's Investigators to have a friend present during the interview but ~~that~~ that person may not interrupt in any way, either by word or signal.

4.6. 2.5. Having considered the Standard Contract in some detail from a business perspective, we are of the opinion that ~~the terms of the contract appear to be biased in favour of Post Office and it~~ can, in some circumstances, operate to the detriment of the Subpostmaster. ~~Also, we, who may not have reviewed nor fully understood the terms before accepting or declining to enter into the Contract. We~~ have not seen any evidence that Post Office either advises or requires ~~the Subpostmaster~~ **Subpostmasters** to seek independent legal advice before taking up their post. ~~We are also unaware of any cases where Post Office was prepared to vary the terms and conditions of the Standard Contract at the request of the Subpostmaster posts.~~

4.7. 2.6. The Standard Contract ~~transfers financial and other risks to Subpostmasters who may~~

~~not have properly understood or appreciated those risks, particularly if they failed to seek independent legal advice. Consequently, there is a risk that appropriate risk mitigation measures may not have been implemented by the Subpostmaster. Post Office has the power to require Subpostmasters to implement new products and services and failure to do so represents a breach of contract that could give rise to suspension or dismissal. The risk here is that Post Office could implement decisions from which it reaps the benefits (such as by reducing operating costs) while the risks (and therefore the costs) fall onto the shoulders of the Subpostmasters who have no choice other than to accept the decision. places a number of financial and other risks with Subpostmasters who may not have properly understood or appreciated those risks, particularly if they failed to seek independent legal advice. Consequently, there is a risk that appropriate risk mitigation measures may not be implemented by the Subpostmaster.~~

~~2.7. *Post Office controls the Horizon infrastructure including back-office accounting. **functions. A consequence of this is that Post Office may hold Subpostmasters accountable for shortages that they are unable to fully investigate ** . A Subpostmaster has very limited options in these circumstances and often has to make good losses. **where the underlying root cause has not been established*.~~

~~2.8. Many Subpostmasters are* unaware that, under Section 19, Paragraph 12 of the Standard Contract, the Post Office Investigation Division * ('POID') does not have a mandate to provide general investigative support to Subpostmasters. There is therefore no general investigative function readily available as POID only seems to have a mandate to act (though it is not required to act) where criminality is suspected.~~

~~2.9. We also note that when a POID criminal investigation is in progress,* the interviewee is not allowed to be legally represented, although they may be accompanied by a 'friend',* which could be considered to be unfair.~~

4.8. ~~*We have been told by many~~ ***Applicants*** ~~that they were not given a copy of the 114 page Standard Contract until long after they had committed to purchase their sub-post office*, * or long after they had started work as a Subpostmaster, or even at all.*~~

4.9. ~~2.10.~~ ~~*We have been told by many~~ ***Subpostmasters*** ~~that they were not given a copy of the 114 page Standard Contract until long after they had committed to purchase their sub-post office*, * or long after they had started work as a Subpostmaster, or even at all.*~~ We are advised that in some cases, a copy of the Standard Contract was not provided to the Applicant until Post Office commenced litigation. Post Office has stated that its ~~s~~**Standard** ~~e~~**Operating** ~~p~~**Procedures** require that Subpostmasters are provided with a copy of the Standard Contract no later than the day that they start work but this often seems not to have happened.

4.10. ~~2.11.~~ ~~We have also, as yet, seen no example where any Subpostmaster at any point signed the Standard Contract itself. Rather, the practice seems to have been for new Subpostmasters to sign an~~ ***Acknowledgement of Appointment*** ~~letter. *which includes the following text: "I accept the Appointment as Subpostmaster at XXXXX Branch and agree to be bound by the terms of my contract; and by the rules contained in the book of rules and the instructions contained in those postal instructions issued to me".~~ understand that it is common practice for a new Subpostmaster to sign an

~~'*Acknowledgement of Appointment' letter~~ ***that refers to the Contract, but without necessarily being provided with a copy of it. In so doing the Subpostmaster acknowledges receipt and acceptance of its terms and conditions, without necessarily being aware of its specific provisions.**

4.11. ~~2.12.~~ ~~It is worth noting that, in many cases, retaining evidence of the provision of the Standard Contract (or of any document having been signed by the Subpostmaster) has not been retained by Post Office to the~~

Applicant has never been part of the Post Office's Standard Operating Procedures.

5. ~~3.~~ **Automated Teller Machines (ATMs)**

5.1. ~~3.1.~~ Our Part One Report provides, in sections 5.23 to 5.29, background information on the installation and operation of Automated Teller Machines (ATMs).

5.2. ~~3.2.~~ When a Post Office branch is equipped with an ATM it can be located either within or external to the branch premises. The installation of an ATM at a branch is often desirable as it can result in greater footfall and, as a consequence, increased sales of both Post Office products and services and those of the co-located shop. Most of the reported problems* ~~we have seen relate to Bank of Ireland (*BoI) ATMs and some to HANCO ATMs.~~ All of the problems ~~that we have as yet encountered~~ seen so far relate to external ATMs.

5.3. ~~3.3.~~ **The Problems with ATMs have been reported problems in more than 20% of the cases considered so far and** have included both small and large shortages that were charged back to Subpostmasters by Post Office. In other cases, large surpluses occurred, which caused concern to some ~~Subpostmasters. Applicants*~~ ***.**

~~3.4. Most of the reports that~~ *we have seen relate to Bank of Ireland (***'BoI'**) ATMs and some to HANCO, as well as to other ATMs*, *

~~3.5. The normal cash dispensing process on BoI ATMs involves electronic interaction between the~~ *

5.4. *The normal cash dispensing process on BoI ATMs involves electronic interaction between the Branch's ATM; Wincor Nixdorf (the service and maintenance provider); the LiNK platform and the customer's bank. The ATM cash balancing/reconciliation process involves electronic and also manual interaction between the Branch's ATM; the Branch's Horizon system; Post Office's Financial Service Centre (the 'FSC'); and BoI. This is a ~~more~~ complex arrangement, requiring greater human intervention, at the end of ~~the~~each business day, than that typically ~~deployed~~by needed in most high street ~~and other~~ banks whose ATMs are seamlessly connected to their own computer systems.

5.5. ~~3.6.~~ One notable problem, reported by ~~several~~many of the Applicants ~~using BoI raising~~concerns about ATMs, seems to relate to the manual (rather than electronic/automatic) extraction and use of the '*cash dispensed*' figures from the '*Bank Totals*' receipt that Subpostmasters are required to obtain *each day from their ATM and *~~the~~* daily input of '*cash declarations*' into Horizon. This ~~is sometimes referred to by Subpostmasters as "the problem with the 'air gap' between ATMs and the Horizon system".~~

*each day from their ATM and *their* daily input of 'cash declarations' into Horizon. This *has been referred to by some Applicants as having to deal with an 'air gap' between their ATM and the Horizon system.

5.6. ~~3.7.~~ In February 2008, Post Office issued an 'Operations Manual interim'. Post Office stated that it was issuing new instructions because *"a number of non-conformance issues are still affecting the processes for ATM reconciliation and settlement and to explain the correct end-to-end accounting processes relating to Bank of Ireland ATMs"*.

5.7. ~~3.8.~~ The Introduction to the Operations Manual interim stated:

The Bank of Ireland, via the LiNK network, extracts a 16:30 - 16:30 'cash dispensed' figure automatically from your ATM each day. This figure forms the basis of a settlement to Post Office. This figure is the value of cash dispensed from your ATM from 16:30 the previous day until 16:30 on the current working day.

In other words, the amount of cash dispensed to customers, from each branch's ATM during the previous 24 hours (or during the previous 72 hours between Friday at 16:30 and Monday at 16:30), would be available to BoI and that data would be extracted by BoI from each ATM.

5.8. ~~3.9.~~ The Operations Manual interim goes on to say:

In order to meet the required business accounting standard, branches are required to obtain each day the 16:30 - 16:30 'cash dispensed' figure from the 'Bank Totals' receipt which is available from the Bank of Ireland ATM, and to enter this figure on the Horizon system on a daily basis.

The Manual later describes that as needing to be done each day after 16:30 but before 19:00.00.

5.9. The Manual continues:

In Product and Branch Accounting (P&BA) a comparison is made between the LiNK generated figure and the figure you enter on Horizon. If the totals differ, they are queried with Bank of Ireland and may result in a Transaction Correction sent to your branch. If you do not enter the daily 16:30 - 16:30 'cash dispensed' figure on Horizon, this means that the settlement figure by Bank of Ireland cannot be confirmed. In this case the two sets of figures are automatically reported as differing, resulting in reconciliation problems.

5.10. ~~3.10.~~ In addition to obtaining the cash dispensed figures from their ATM and entering ~~it them~~ into Horizon at the ~~right~~correct time of day, Subpostmasters were also instructed to make a daily cash declaration (and do this every day including on days when the branch closed before 16:30 hrs) through their Horizon terminal. Specifically:

You must make a daily cash declaration on the Horizon system for the separate stock unit you have set up for ATM transactions (including days when you close before 4.30pm (16:30 hours) and you have logged on to the ATM stock unit). Unlike cash declarations for your counter stocks, however, you do not need to make a physical count of the cash contained in the ATM in order to complete the declaration.

You must make the declaration before 7pm (19:00 hrs) and you must include all funds stored in your official safe that you have received on a Remittance specifically for your ATM.

5.11. ~~3.11.~~ It would appear that some ~~Subpostmasters either~~ Applicants misunderstood the instructions ~~or, and some~~ were told by Helpline staff, when they were investigating differences, that "*the problem will sort itself out*" (though it did not) ~~and. Any differences would normally be expected to be resolved by means of Transaction Corrections, however this often meant that further errors were made. Many Applicants have also reported that~~ they subsequently found that the Helpline's advice was later countermanded. ~~This comment and other similar ones~~ Comments referring to problems with Helpline advice ~~is~~ are found in the CQRs in nearly every instance where ~~there were~~ the Applicant experienced problems with the operation of an ATM.

5.12. ~~3.12.~~ A consequence of a user getting things wrong with the ATM cash dispensed figures ~~was that an~~ and inputting incorrect data and hence causing an initial discrepancy was that an out-of-sync situation could develop where the branch's ATM would be expected (by BoI and by Post Office) to have an amount of cash in its cassettes that was different from the cash figure that the Subpostmaster had entered into Horizon.

5.13. ~~3.13. This out-~~ Based on comments in many CQRs the problems reported by Applicants relating to this out- of-sync situation ~~and associated reconciliation difficulties~~, became, it seems, what can be described as commonplace in some branches prior to the February 2008 release of the Manual Update.

5.14. ~~3.14. Indeed, the Manual says:~~ The Manual Update confirms that, by following the new instructions, the process for entering data and balancing ATM cash will change and states:

If following the instructions contained in this workaid means that the way you will now enter data on Horizon and balance your ATM cash will change (for example, if you have previously entered figures which are not based upon the 16:30 - 16:30 figures or if you have not completed this task daily, moving to the correct process is likely to result in a cash balancing difference).

If this is the case, P&BA will issue a Transaction Correction, to address the cash balancing differences, and will try to provide clear evidence and as much information as possible to help with correcting transactions. The correction assumes that all previous ATM dispensed figures have been recorded on Horizon accurately and that branch cash has been correctly declared.

5.15. ~~3.15.~~ Many Applicants have commented on their view of the complexity of the processing of ATM figures in Horizon and the general lack of clarity and hence ease of use of the guidance and instructions issued by Post Office. ~~The~~ We consider that the February 2008 instructions represent a good example of this complexity and ~~the following extracts demonstrates how~~ easy it might have been for some Subpostmasters to make mistakes, even after the new instructions were released. From. This is an extract from the paragraph titled *Loading cash*

into the ATM:

Always enter in the ATM the number of notes loaded in the machine, not the value

Ensure that you enter the number of notes you are loading, not the amount already in the ATM

Please remember: At the weekly balance all figures are cleared. Therefore, you will need to enter all amounts in total when you reload the machine next.

- 5.16.** ~~3.16. The~~ As an additional example, the following extract is from the paragraphs dealing with *Weekly balancing and recording figures on the Cash Management Sheet*:

You must make a physical count of the cash in your ATM at least once a week and record the figures on the Cash Management Sheet before removing the cassettes for your physical check of the cash. You must not enter any of the figures on the Horizon system. The weekly balance can be carried out on any day of the week, even at the end of a Branch Trading period as long as your premises are closed to the public. It should be completed at any time after 16:30 hrs when the Disp 16:30 – 16:30 figure has been entered.

Please note: You do not have to reconcile the cash in your ATM with the cash declaration you make on Horizon. The ATM is balanced using the Cash Management Sheet as described below. If the Cash Management Sheet balances, your ATM has balanced.

- 5.17.** ... and the following extract is from the paragraphs dealing with *If the Cash Management Sheet balances, but there is a discrepancy on Horizon*:

The Horizon system should not be recording a discrepancy in the ATM stock. If a discrepancy is not rectified, it will give you a wrong carried forward figure and the problem could be compounded. If there is a discrepancy on Horizon but the Cash Management Sheet balances, you could have entered incorrect figures on the Horizon system.

Go back through your receipts and double check that the 16.30-16.30 'cash dispensed' figures for each day have been entered correctly on Horizon.

Check that any ATM cash originally remitted into a counter stock has been transferred into the ATM stock

Check that the transfer into the ATM stock has been accepted

Double check that the daily cash declaration has been completed accurately

If you cannot resolve the discrepancy, do not phone the Wincor Helpdesk; please phone the NBSC for advice.

- 5.18.** ~~3.17. The Subpostmasters, in virtually every case that we have reviewed, state~~ In those cases in which the Applicant reported concerns about an out-of sync situation most have stated that they had no idea what was causing the ~~out-of sync situation. Of potential significance is whether the problems reported occurred before or after the February 2008 Manual update as the new instructions should have reduced or eliminated the potential for errors. If problem. The 2008 Manual Update did little to resolve those issues. Furthermore, if~~ the branch's ATM was operating after the 16:30 BoI 'cut-off' time during the week and/or at weekends (as would clearly be the case with externally located ATMs), then the transaction volumes and associated accounting entries on the following Monday would include all cash dispensed in the preceding 72 hours between ~~72 hours between~~ 16:31 on the previous Friday afternoon and 16:30 on ~~the following Monday that~~ the following ~~Monday that~~ afternoon.

5.19. ~~3.18.~~ We have also been told that when ATM-related reconciliation and out-of-sync problems were reported to the Helpline, ~~Subpostmasters~~Applicants were often told to *ignore the shortfall because it will sort itself out*. ~~This advice runs the risk of allowing a large shortfall to build up (see "and the problem could be compounded" in 3.16 above), whilst awaiting the possible issue of a Transaction Correction, rather than dealing with the underlying problem. Inadequate and possibly inappropriate advice~~The advice from the Helpline, particularly prior to the 2008 Manual update, ~~appears to have been frequently provided which may have resulted in Subpostmasters eventually giving up~~ trying to understand and resolve problems and hence coming under pressure to ~~falsely account as~~ part of a temporary solution to an as yet unresolved problem

appears to us (based on comments and reactions from Applicants) to have been inadequate or possibly even misleading. It may also have had the unintended consequence of causing Applicants to give up trying to understand and resolve problems. This in turn, could have led to the temptation to *falsely account*, while waiting for the problem to “*sort itself out*”.

5.20. ~~3.19.~~ Many ~~Subpostmasters~~Applicants have commented on the apparent impact on their branch's ATM of power or telecommunication failures. ~~There~~Other than recording in some cases the dates and times of such failures, it was difficult for them to relate those failures to specific deficiencies. It is recognised that there are standard processes in place to deal with power cuts and connectivity interrupts to ensure that data is not lost or corrupted when those events occur. Nonetheless, the need in such circumstances for an ATM to be re-booted by the Subpostmaster, or for it to be remotely re-booted by Bol, could in our view, introduce ~~thea~~ possible risk of data loss or corruption. Post Office has given assurances that this cannot happen, and that it never has happened, but some evidence seemingly contradicts those assurances. ~~Post Office and Second Sight are making, so~~ further enquiries on this ~~subject point~~ are continuing.

5.21. ~~3.20.~~ There have been many reported instances where a cash withdrawal ~~cannot~~could not be completed due to a problem occurring during ~~a~~the transaction. We understand that this occurs reasonably frequently and can be due to a mistake by the customer. Depending on when the problem arose it is possible for cash that should have been dispensed to the customer to be withheld by the ATM but the customer's bank account nevertheless debited.

5.22. ~~3.21.~~ In addition whenWhen cash is dispensed by an ATM, ~~but~~and there is a delay in the customer physically removing ~~the cash from it~~, the ATM will, ~~then~~ after a set period ~~the ATM will~~, retain the cash. This is known as a retract.

5.23. ~~3.22.~~ In most instances such retracts occur because customers get distracted and ~~fail~~walk away having failed to take the offered notes within the pre-set timeframe (usually 60 seconds). ~~Sometimes, a customer will walk away from the ATM without taking the dispensed cash at all.~~ In such instances, the customer's account will be debited and, in due course, his account will be re-credited once (if he ~~remembers~~notifies his mistake) he contacts his bank to report what happened. ~~*Those notes should have been found, at the end of that day, in the ATM's 'retracts bin'. All that is innocent and not a cause of problems to any Subpostmaster.*~~

*Those notes should have been found, at the end of that day, in the ATM's 'retracts bin'. All that is innocent and not a cause of problems to any Subpostmaster. * **The more serious aspect of retract fraud is dealt with below.**

5.24. ~~3.23.~~ It is, ~~however, in our view~~ possible that some of the large discrepancies reported by ~~Subpostmasters~~Applicants could have included losses brought about by external theft where sophisticated methodologies had been deployed (such as retract fraud or the more advanced transaction reversal fraud). The risk and consequences of this sort of theft/fraud, and the need to thoroughly investigate ~~all reported instances of every~~ apparent ATM cash ~~shortfalls has been discussed at length with Post Office. As yet we are not satisfied that adequate investigative~~

~~work was in such cases carried out. We are aware of a lengthy~~* project, carried out by Post Office in 2012, to react to increasing retract fraud but we have been told that no report was produced and we have, as yet, been unable to check whether any ~~*Subpostmasters*~~ were held accountable for losses that were, or might have been, attributable to external ATM fraud/theft. *shortfall, seems to have been under appreciated.

5.25. We are aware of a* project, carried out by Post Office in 2012, to react to increasing retract fraud but we have been told that no report was produced and we have, as yet, been unable to check whether any *Applicants* were held accountable for losses that were, or might have been, attributable to external ATM fraud/theft. *

6. 4- Motor Vehicle Licences

6.1. 4.1- Not all branches are authorised to issue Motor Vehicle Licences ('MVL') and only a small number of ~~Subpostmasters~~Applicants have reported problems with MVL processing. We have seen ~~however, repeated~~ a small number of instances of a particular problem. This relates to V11C forms that were misprinted with an incorrect bar code. This seems to have resulted in Horizon recording the sale of a 12 month tax disc, when in fact a 6 month tax disc was sold.

6.2. 4.2- If this error is not immediately noticed at the Horizon terminal, a discrepancy, being the price difference between the 6 and 12 month MVL Tax Discs, will occur and the Subpostmaster will later be held accountable for the resultant cash shortfall. In branches issuing large numbers of MVLs this ~~may~~could become a significant amount.

7. 5- National Lottery

7.1. 5.1- Not all branches sell Lottery tickets or Lottery Scratch Cards. Where these items are sold, they are usually sold from the co-located shop's retail counter, rather than from the Post Office counter, even though they have to be accounted for using the Horizon terminal at the Post Office counter.

7.2. 5.2- There is often a significant difference in the opening hours of the counter in the retail shop and the shop's Post Office counter. The retail counter will therefore be selling Lottery tickets/Scratch Cards outside the hours where ~~on~~ the Horizon system is operating at the Post Office counter. Since branches are not allowed to sell National Lottery products other than through the Post Office, each day's ticket sales have to be recorded, the following morning, in Horizon. Also, before any Lottery Scratch Cards can be sold, they must first be 'Activated' on the Camelot terminal and then 'Remmed in' to Horizon.

7.3. 5.3- We have received many reports where ~~Subpostmasters~~Applicants have stated that their branch's Horizon system would get out-of-sync with the quite separate Camelot system, thereby generating material surpluses or deficiencies that were eventually corrected by Post Office issuing Transaction Corrections (TCs) through the Horizon system. The average Lottery-related TC was approximately £650 and many of these TCs were for amounts that were exactly divisible by *£160, that being the value of a full pack of Scratch Cards.*
~~*£160, that being the value of a full pack of Scratch Cards.*~~

7.4. Prior to 2012 most discrepancies on Scratch Card activations were caused by Subpostmasters failing to 'rem in' activated packs of Scratch Cards to Horizon. In February 2012* Post Office introduced a system change that finally eliminated the possibility of synchronisation errors between the Horizon and Camelot systems*.

7.5. 5.4- These problems appear to have been most serious and frequent between 2005 and February

2010, when Post Office made a significant change to its ~~standard operating procedures that made it impossible, after that date, to have packs of inactive Scratch Cards recorded in Horizon at the same time as in the Camelot system. A further important improvement was made in February 2012 when*~~ Post Office introduced a system change that finally eliminated the possibility of synchronisation errors between the Horizon and Camelot systems*. **Standard Operating Procedures. This reduced the possibility of having packs of inactive Scratch Cards recorded in Horizon or having activated packs that were not recorded in Horizon.**

7.6. 5.5- We have also been told by Applicants that, before these important ~~systemprocedural~~ improvements were introduced, inconsistent and sometimes conflicting advice was provided by the Helpline, which further exacerbated their problems.

7.7. 5.6- The Occurrences of the out-of-sync problem ~~was appear to have been~~ particularly prevalent in branches where ~~the an associated~~ retail shop sold Lottery tickets late into the evening, after the Post Office counter had closed. A further complication often occurred on the final Wednesday evening of the monthly Trading Period, ~~when~~ Subpostmasters were required to reconcile the Horizon/ ~~and~~ Camelot figures as a priority task on the Thursday morning, rather than at 17:30 on the Wednesday, but this requirement was not always advised by the Helpline. It is not clear whether the training and support that ~~Subpostmasters~~ Applicants received covered this important point.

~~5.7. A specific example of the Camelot/Horizon synchronisation issue is described in Appendix 4 to our Interim Report dated 8th July 2013 and this provides further important information about this matter.~~

8. 6- Training, Support and Supervision

8.1. 6.1- The nature and extent of training provided by Post Office has developed over the years ~~and is as~~ described in our Part One Briefing Report. ~~The~~ **In our opinion, the** training ~~is was~~ probably adequate for people who have ~~ed~~ reasonable levels of IT skills, numeracy and accuracy, though further product-specific training, rather than the use of Operating Manuals, ~~is probably needed was perhaps required~~ for some Subpostmasters, especially those whose branches delivered ~~ed~~ a wide range of products and services.

8.2. 6.2- We have been ~~repeatedly~~ told **by most Applicants** that ~~the whilst their~~ basic training ~~presented to Subpostmasters~~ was probably adequate in regard to general 'Business as Usual' Transaction Processing, ~~but it~~ was predominately sales-~~focussed focused~~ and ~~was rated as being poor weak~~ in regard to ~~eEnd of day, and particularly endDay, End of Week and in particular, End~~ of Trading Period, balancing. ~~There~~ **We have been advised by most Applicants that there**

was little or no coverage of how to deal with discrepancies (both surpluses and shortfalls); how to identify the root causes of recurring problems; or how to deal with Transaction Corrections.

8.3. ~~6.3.~~ We have also heard many examples of Subpostmasters who for many

Applicants have commented that, in the years prior to the installation of the Horizon computer system, **they** typically had monthly surpluses of just a few pounds (less than £30 seemed to be the norm) and that they first experienced large discrepancies shortly after the Horizon system was installed.

8.4. Many Applicants have reported that ~~* they or their staff only started making~~ ***serious**

***mistakes after the new system was launched** ~~*. This could indicate a lack of understanding of~~
how the system was meant to operate and be used, which could itself indicate ~~* that they had~~
either been insufficiently trained ~~*, that they had been unable to properly train their staff, or~~
that the ~~*new screen-based counter processes had introduced new ways of making mistakes~~
that neither ~~* they*, nor anyone in Post Office, was~~ ***aware of.**

6.4. ~~It would appear that since~~ ~~* they or their staff only started making~~ ~~**mistakes after the new~~
~~system was launched~~ ~~* then that indicates~~ ~~* that they had either been insufficiently trained~~ ~~* or~~
that the

~~*new screen-based counter processes had introduced new ways of making mistakes that~~
~~neither~~ ~~* the system itself~~ ~~*, nor anyone in Post Office, was~~ ~~*helping them avoid or detect.~~

8.5. ~~6.5.~~ We note that the duration of Basic Training has varied widely over the years and is now
far more extensive than it was in 1990 - 2010 (the pertinent period for many of the
Applicants). Post Office refers to the current routine provision of two ~~week's~~ **sweeks'** training
for Subpostmasters. ~~We have found many examples where Subpostmasters~~ **Many Applicants**
have reported in their CQRs that they received fewer than two ~~day's~~ **sdays'** training and were
simply handed Operating Manuals for self-study and to train their counter staff.

8.6. ~~6.6.~~ Post Office's Trainers, and in some cases Applicants' Line Managers, do not seem to
behave been well regarded by many ~~Subpostmasters~~ **Applicants** and appear to have been
considered particularly weak when dealing with ATMs; Lottery processing; Motor Vehicle
Licences; Foreign Currency; and other specialist products.

6.7. ~~This problem is compounded by the fact that many of Post Office's own~~
Auditors/Investigators and Line Managers had very limited knowledge of Horizon processes,
so were also unable to provide any meaningful guidance or support.

8.7. ~~6.8.~~ Subpostmasters are responsible for training and supervising their own staff, and Post
Office has, under its contract with Subpostmasters, no responsibility to train staff, other than
in Crown Offices. Post Office does provide Subpostmasters with relevant training materials **for**
themselves and their staff, but it does not ~~exercise any~~ **operate a** quality control function in
order to ensure that this further training is properly delivered. **We found that further training**
for Subpostmasters was predominantly delivered in response to user demand, rather than
being determined by Training Needs Analysis.

8.8. ~~6.9.~~ We recognise the complexity of the current product range and question whether a counter process involving over 170 products, operated by more than 68,000 staff, of vastly differing levels of intellect, experience, numeracy and attention to detail, can ever be expected to work well ~~with such limited oversight and monitoring by Post Office. Once again we suspect that this lack of effective oversight is due to a business model that transfers substantially all of the risk to Subpostmasters and provides little incentive for Post Office to ensure effective training and support is provided to Subpostmasters and staff without a fully effective and comprehensive training and support regime.~~

9. ~~7.~~ The Helpline

9.1. ~~7.1.~~ We Many Applicants' CQRs have ~~heard many~~ included examples where the Post Office's Helpline has failed to provide ~~any~~ worthwhile support when called. ~~Specific criticism has included~~ The relevant call log (when available) often does not provide sufficient detail about exactly what advice was provided in order for us to form evidence based conclusions.
Specific criticisms include:

- a) ~~*~~ difficulty in contacting the helpline due to its limited availability*;
- b) ~~a)~~ unhelpful, script-based, responses;
- c) ~~b)~~ many calls, including those seeking help on balancing problems and discrepancies, were afforded 'Low Priority' by the Helpline staff; and
- d) ~~c)~~ instructions received during one call that are said to have later been countermanded, sometimes months later, by another; and
- e) ~~d)~~ *difficulty in contacting the helpline due to its limited availability*.

9.2. ~~7.2.~~ A frequently recurring response by the Helpline, relating to shortfalls, is said to have been: "*don't worry about it-(the shortfall), it will sort itself out*".

9.3. Many Applicants have reported that problems did not sort themselves out, nor was any indication ~~ever~~ given by the Helpline as to how long they should wait before realizing that a problem that had not sorted itself out would probably not now do so, nor how they were supposed to balance the books during the intervening period.

10. ~~8.~~ Limitations in the Transactional 'Audit Trail'

10.1. ~~8.1.~~ Many Applicants have claimed that, whilst acknowledging some errors were caused by their own mistakes, they were often unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon, because the underlying transaction data was not ~~made~~ available to them.

10.2. *Post Office controls the Horizon infrastructure including back-office accounting *and reporting *functions. A consequence of this is that Post Office may hold Subpostmasters accountable for shortages that they are unable to fully investigate* due to a lack of access to data*. A Subpostmaster has very limited options in these circumstances and often has to make good losses *even *where the underlying root cause has not been established* or

understood.

10.3. ~~8.2.~~ The concerns fall broadly into three areas:

- a) data that isn't available even on the day of the transaction;
- b) data that was at first available, but after 42 days (later extended to 60 days following a system change by Post Office) is no longer available; and
- c) data that isn't available after suspension.

Data that isn't available even on the day of the transaction

10.4. ~~8.3.~~ Applicants' concerns principally relate to transaction types where Horizon produces, at the end of day, only an *aggregate amount* and *volume* for that day's transactions ~~(e.g.:- Transactions: 35, Value: £17,112.55).~~ These transaction types are those* where customers have paid for goods or services by Debit or Credit* Card.

~~8.4. This occurs, for example,* where customers have paid for goods or services by Debit or Credit* Card.~~

10.5. ~~8.5.~~ In the event of an end-of-day discrepancy for one of these transaction types, and without the benefit of a disaggregation of a total amount into its constituent transactional components, ~~Subpostmasters~~ Applicants found it difficult, if not impossible, to identify the individual transaction(s) that brought about the discrepancy.

10.6. ~~8.6.~~ Typically, a Subpostmaster would need to find items:

- a) that should have been, but were not, included in the aggregate total; or
- b) amounts that had been incorrectly entered, such as £50.00 entered as £500.00, £39.00 entered as ~~£93.00~~ £93.00, a withdrawal processed as a deposit; or
- c) amounts that formed part of the aggregate total, but should not have been included in that total at all.

10.7. ~~8.7.~~ Only by finding those errors and omissions could ~~the Subpostmaster~~ Subpostmasters begin the process of correction and loss mitigation. ~~That is~~ they may sometimes have involved ~~contacting~~ attempting to contact the relevant customer, but in order to do that ~~he~~ they needed not only to identify the incorrect or missing transaction, but also to know the name, and perhaps also the address, of the relevant customer.

10.8. ~~8.8.~~ Many Applicants have told us that, prior to the introduction of Horizon, it was easy to do this since the paper dockets retained to evidence each transaction provided this information. It is regrettable that the Horizon system does not provide the same functionality as the previous manual system.

~~Data that was at first available, but after 42 days (later extended to 60 days) is no longer available~~

Data that was at first available, but after 42 days (later extended to 60 days) is no longer available

10.9. ~~8.9.~~ The main concern expressed about data availability, is the need to go back to a previous period in the event that a Transaction Corrections are Correction (TC) was issued by Post Office a long time after the transaction (to which the TC relates) was erroneously input into, or omitted from, Horizon. TCs are issued for different reasons and different products may be treated in different ways. If the delay in issuing the TC exceeds 42 days (now 60 days), the Subpostmaster ~~has little choice other than to accept the TC. Requests for supporting evidence that would enable the substance of the TC to be validated were routinely rejected by Post Office, usually~~ may no longer have data readily available with which to respond to the TC and may have no practical alternative other than to accept it. We have been told that if further data was requested from Post Office, such requests were often rejected on cost grounds. ~~Also, We are also aware that~~ the difficulty in ~~both~~ printing-out and examining Horizon's 8cm wide 'till rolls' was a significant issue in locating the transaction(s) that had created discrepancies.

Data that isn't available after suspension

10.10. ~~8.10.~~ Applicants have reported that their ability to investigate transactional discrepancies, or to defend themselves against allegations made by Post Office, were often thwarted because, following their suspension (usually on the day of an Audit), they were ~~thereafter, as a matter of~~ Post Office policy, denied access to the Branch. In many instances we have been advised that Post Office Investigators also removed ~~Branch's~~ records, often including personal documents such as diaries in which ~~they~~ Applicants had noted problems that had occurred; to whom they had reported those problems; what advice and instructions they had received; and what had resulted from following that advice or instructions. Applicants have also reported that, despite their requests, they never regained access to any of the records they needed to prove their innocence.

11. ~~9.~~ Transactions not entered by the Subpostmaster or their staff

11.1. ~~9.1.~~ Many Applicants have reported that Horizon transactions appeared to have been entered,

or cash or stock balances changed, when the branch was closed and no one had access to any of the Horizon terminals. ~~Evidence has also been provided of transactions apparently occurring after a Subpostmaster was suspended and had no access to the branch's Horizon terminals. Enquiries on these matters are continuing.~~

11.2. ~~9.2.~~ Post Office has confirmed ~~its understanding~~ that it is not, and never has been, possible for anyone to access Branch data and amend live transactional, cash or stock data without the knowledge of ~~the Subpostmaster~~ Subpostmasters or their staff. However, we are aware that certain error recovery and correction processes can result in transaction reversals that carry the System Identity ~~iesy (IDs (ID)~~ of the branch employee who entered the originating transaction that the system itself is ~~automatically reversing,~~ or the ID of the employee restarting the system (see 'Automatic Transaction Reversals'). We note that this fails to easily* differentiate

Data that was at first available, but after 42 days (later extended to 60 days) is no longer between entries *made by a user and those that are system generated. Enquiries on these matters are continuing.

12. ~~10.~~ Automatic Transaction Reversals

12.1. ~~10.1.~~ As mentioned above, a number of Applicants have reported transactions that appear to have been input when the branch was shut and no one had access to the Horizon terminals.

~~10.2. — Also, in some instances, 'ghost' transactions appear to have contributed to shortfalls for which the relevant Subpostmaster was later held accountable. 'Ghost' transactions are genuine transactions that for some reason appear multiple times in the Horizon records. We briefly dealt with this issue in our Interim Report (see Spot Review 01). In that example, the Horizon system had automatically reversed a transaction, which had been only partially completed. Although the Subpostmaster had entered the original transaction, he had not entered the reversal of that transaction. Rather, the Horizon system had automatically generated a transactional reversal after suffering a telecommunications interruption.~~

12.2. A few Applicants have reported that they had entered an original transaction, but had not entered the reversal of that transaction. Rather, the Horizon system appeared to have generated a transaction reversal, without their knowledge or their intervention.

~~10.3. The transaction identity assigned by Horizon to that reversal was that of the Subpostmaster, rather than a system-generated ID. We note that this appears to fail to* differentiate between entries* genuinely made by a User and those that are system-generated. We regard this as a systems design error.~~

~~10.4. This misuse of User IDs for system-generated transaction reversals appears to be inconsistent and not yet fully understood. Various assurances and evidence have been provided by Post Office and further enquiries are continuing.~~

~~10.5.~~ 12.3. This matter was also highlighted in a report by Helen Rose, Post Office Security - Fraud Analyst - dated 12 June, 2013:

"... it is just that I don't think that some of the system based correction and adjustment transactions are clear to us on either credence or ARQ logs."

"However, my concerns are that we cannot clearly see what has happened on the data available to us and this in itself may be misinterpreted when giving evidence and using the same data for prosecutions."

12.4. N.B. 'Credence' is a Post Office Management Information Reporting System and 'ARQ logs' is a reference to a request for Horizon information archived through the 'Audit Retrieval Query' process. Enquiries on this issue are continuing.

13. ~~11.~~ **Cash and Stock Remittances ('Rems') in and out of the branch**

13.1. ~~11.1.~~ A number of Applicants have raised issues concerning 'Rems'.

13.2. ~~11.2.~~ 'Rems' are inward and outward remittances of stock or cash (including foreign currency).

Large amounts of cash and stock are routinely sent to and from branches using this process. Robust procedures are in place to ensure that the process normally operates reliably and that errors, or theft, are rapidly detected.

13.3. ~~11.3.~~ Occasionally however, branches will report that a Rem 'pouch' was not received or that it contained fewer items, or lower value, than the sender claimed. Similarly, Post Office will sometimes find that a Rem pouch sent by a branch is missing or its content has been overstated by the branch. Post Office deals with these discrepancies by issuing Transaction Corrections *that show the details of the shortfall or overage. Because such discrepancies relate to physical* *items, it is necessary to rely on witness statements and other documentary evidence as to the exact content of Rem pouches.*

that show the details of the shortfall or overage. Because such discrepancies relate to physical

12.2. A few Applicants have reported that they had entered an original transaction, but had not
~~* items, it is necessary to rely on witness statements and other documentary evidence as to
the exact content of Rem pouches, *~~

13.4. ~~11.4.~~ Some Applicants have described instances of foreign currency shipments being
accidentally sent to the wrong branch. We are aware that some of these errors have occurred
due to Post Office's Business Partner for Foreign Currency ('First Rate') using an incorrect
delivery address. Clearly, this introduces the possibility that ~~a Subpostmaster would be an~~
Applicant might have been held accountable for a shipment that was never received by his
branch.

13.5. Post Office is now carrying out further investigations into this matter.

14. ~~12.~~ Missing Cheques

14.1. ~~12.1.~~ As with other outward Remittances (see **Cash and Stock Remittances ('Rems')** in and out of the branch above) ~~sub-postoffices, branches~~ 'Rem' to Post Office's main processing centre (in Chesterfield) all cheques that the branch has taken in each day. These are put together into 'Stripey' envelopes and collected by the Royal Mail after each day's cut-off time.

14.2. ~~12.2.~~ For almost all of the ~~many~~ cheques that Post Office handles each day, everything normally goes smoothly, but some cheques do get lost or are accidentally spoiled either within the branch or at Chesterfield, while some envelopes get lost in transit.

14.3. ~~12.3.~~ We have also been informed that it is possible for cheques to get damaged in Post Office's cheque processing equipment and therefore not be processed. In such cases, if the cheque is so badly mutilated as to be unreadable, the possibility arises that a branch might be charged, through the TC process, for a missing payment even though the cheque had been sent to Chesterfield. Also, where a customer's cheque 'bounces', it will be charged back to the branch if the branch staff failed to follow ~~sStandard oOperating pProcedures~~. Post Office has stated that it will attempt, where possible, to obtain a replacement cheque from the customer.

14.4. ~~12.4.~~ Assertions have been made by some Applicants that customers' cheques (received in exchange for goods or services rendered at the counter) never cleared and they were held accountable for the value of those missing cheques. Post Office has told us that there have been no examples of this occurring and, in due course, Post Office will have an opportunity to respond to several specific examples cited by Applicants. Enquiries on this matter are continuing.

14.5. ~~12.5.~~ Some Applicants have complained that the TC process was sometimes so slow (in regard to cheques) that, by the time they had been advised that a cheque had been lost, mutilated or returned by the paying bank, all chances of mitigating their loss were gone.

14.6. Post Office has confirmed that Subpostmasters will not be held liable for cheques lost in transit and that, if all required procedures have been correctly followed, they will not be held liable for cheque-related losses.

15. ~~13.~~ Pensions and Allowances

15.1. ~~13.1.~~ ~~A small number of few~~ Applicants have reported problems with Pensions and Allowances. ~~Some of these cases include where Post Office's Investigators made allegations that the Subpostmaster they, or their branch employees, had stolen money by fraudulently manipulated pPension and/or aAllowance payments, for example by showing. The allegations were that amounts had been recorded as having been paid out when they were not ('overclaims') or by allowing a green GIRO cheque to be re-used ('') or where Green GIRO cheques or Pension & Allowance dockets had been re-used (reintroductions').~~

15.2. Post Office has responded to our request for background information to help us better understand and put into context the fraud that Post Office had alleged was happening in those branches.

~~13.2. Several of these Applicants were accused by Post Office of fraudulently processing overclaims and/or reintroductions and we have asked Post Office to help us gain a deeper understanding of the cases that were investigated, and the subset of those that were prosecuted, in order to find out why so few of those cases seem to have resulted in convictions. We will only be able to develop a properly evidenced view on this subject when we have examined more of the relevant cases. Enquiries on these matters are continuing.~~

15.3. Our purpose, in seeking this background information was to clarify how these types of fraud may have been perpetrated and how Post Office identified those responsible. We needed to explore the possibility that Applicants, who had been accused by Post Office of fraud but not ultimately convicted of it, but who had in some instances been required to repay the allegedly stolen funds, might have themselves been the innocent victims of a far larger 'pattern' of fraud.

~~14. Post Office's Data Retention Policy~~

15.4. Post Office pointed out that "*it only prosecutes cases which merit prosecution and does so always on legal advice*" and noted that the vast majority of the cases it takes to court involving reintroduction fraud, result in successful prosecutions.

~~14.1. We have been told that Post Office has a* seven-year Data Retention Policy*. This Policy applies not to only* Horizon transactional data (held by Fujitsu)* but also to all other business records including* emails, letters, memos, interview recordings* and transcripts,* Audit and Investigation Reports* and Legal Files on cases that have been concluded.~~

15.5. Post Office's response described the way that overclaim and reintroduction fraud can be perpetrated and how the relatively easy to manipulate dockets have since been replaced by the more secure 'Post Office Card Account' (POCA) which uses 'Chip and PIN' technology. However, Green GIRO cheques are still in use by customers who have lost their POCA cards and by those on temporary benefits.

~~14.2. Unfortunately it appears that this Policy is often rigidly applied and, until* recently, Post Office did not appear to operate a "litigation hold"* facility* whereby documents that may be needed to support a complaint or investigation* were* preserved—irrespective of the seven-year retention period.* We are aware of cases where it can be shown that the Applicant has repeatedly, during the intervening years, sought Post Office's help in establishing relevant facts and yet where the records were routinely deleted due to the inappropriate use of this rigid policy.~~

15.6. It is clear that, while overclaims can arise as a result of errors innocently made in a branch (e.g. by forgetting to remit a voucher), reintroductions involve a positive decision to re-process a benefit pay-out even though the genuine transaction with the customer has already occurred. Post Office concedes that reintroductions can happen by accident, but the Subpostmaster

would still be liable for such errors and it regards multiple reintroductions as being indicative of fraud.

~~14.3. In these cases Post Office has typically stated that "the time periods of these complaints are now outside normal document retention periods. There is therefore very limited information now available."~~

15.7. Post Office has concluded that no 'pattern' of fraud exists, and we will now examine each of these cases on its merits. Further enquiries on this matter are therefore continuing.

16. ~~15.~~ Surpluses

16.1. ~~15.1.~~ As stated in the section above dealing with The Standard Contract between Post Office and its

Subpostmasters:

"surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately".

~~15.2. The issue here is that although Post Office defines both shortages and surpluses as discrepancies, it does not seem to regard surpluses as worth the same degree of attention as shortages and ignores the possibility that they may* be caused by the system itself, or by errors occurring outside of the branch.*~~

16.2. ~~15.3.~~ We believe that surpluses, just like deficits (shortfalls) are discrepancies, and also that all discrepancies, if material, Post Office defines discrepancies as including both surpluses and deficits. We believe that the cause of all material discrepancies should be investigated and corrected. It is only by doing this that the underlying root cause of the discrepancy can be established. This should include consideration that discrepancies could* be caused by the system itself, or by errors occurring outside of the branch.* It is only by doing this that the underlying root cause of the discrepancy can be established.

16.3. ~~15.4.~~ The preliminary investigative assumption adopted by Post Office appears to be that: Feedback from Applicants has demonstrated to us that the preliminary investigative assumption adopted by Post Office appears to be that *discrepancies are usually caused by *errors or problems at the counter and or by theft. Post Office's confidence in the Horizon system remains very high and as such, the system itself will normally be discounted as a source of error.

~~a) —*discrepancies are usually caused by.* problems at the counter;
and b) the Horizon system is blameless.~~

~~15.5. This is despite the fact that a surplus of £1,000 is more likely to have a system fault as its cause, than a £1,000 shortfall. The logic here is that whereas theft and errors as a result of customers being under-charged, are prime causes of material shortages, it is far less likely that material surpluses are the result of staff putting money into the till, or of customers~~

~~paying over too much cash.~~

16.4. ~~In inputting data into Horizon it is possible that errors are made that generate a surplus, unbeknown to the customer or third party. Another cause of a surplus could be the underpayment at the counter to a customer, although this is more likely to be detected.~~

16.5. ~~15.6. We are surprised that Post Office has implemented a policy whereby~~understand that although surpluses are expected to be retained (by the Subpostmaster), rather than being recorded by Post Office centrally and held it is possible to hold them in suspense by 'settling centrally' so that future shortages and Transaction Corrections could be offset against them. Many Applicants appear not to have been aware of this facility.

~~15.7. We are not aware of any other Financial Institutions that allows staff to keep their till overages. It seems to us that this is a fundamentally wrong and dangerous practice, not least because, in encouraging Subpostmasters to remove any surpluses that occur, it avoids focussing on the event that has caused the surplus in the first place.~~

~~15.8. Just as seriously, honest Subpostmasters who have had a large surplus and have legitimately removed money from the business could later find themselves financially embarrassed when a Transaction Correction arrives and they now have no readily available funds to cover it.~~

16.6. ~~15.9. This approach to~~The* failure to investigate and correct *material discrepancies is perhaps unique to Post Office's Business Model ~~and we note that few. Unlike commercial entities could survive this sort of* failure to investigate and correct *discrepancies. Put simply, unlike ordinary commercial entities that do not operate on an agency basis, Post Office has had little commercial incentive to seek the root causes of discrepancies because it never has to bear the cost of them. Instead, as~~ the burden of cost (and risk) is being carried in most instances either by its Subpostmasters, in the case of shortfalls, or by its customers or Post Office Clients, in the case of surpluses.

~~15.10. We have also been told that many Applicants were unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon, because the underlying transaction data was not made available to them.~~

17. ~~16.~~ Cash withdrawals accidentally processed as deposits and other counter-errors that benefit customers at the expense of the Subpostmaster

Cash withdrawals accidentally processed as deposits

17.1. ~~16.1.~~ Mistakes can occur if the counter clerk accidentally touches the 'DEPOSIT' icon on the screen instead of the adjacent 'WITHDRAWAL' one, thus generating a deficit of twice the size of the customer's withdrawal. Such errors by branch staff can be difficult to isolate from the system- produced totals of card transactions (see **Limitations in the Transactional 'Audit Trail'** above) unless the customer notices his windfall and then tells the branch about it. Absent such customer honesty and diligence, shortages brought about by such mistakes are very difficult to isolate and recover.

Other counter errors that benefit customers at the expense of the Subpostmaster

17.2. ~~16.2.~~ We ~~are~~**have been made** aware of cases where ~~Subpostmasters~~**Applicants** have been held accountable for shortages that have arisen through what Post Office refers to as "errors made at the counter" and where customers have profited at the expense of the Subpostmaster.

17.3. ~~16.3.~~ Where a customer has received cash or goods and later discovered that their bank account has not been debited or their card account has not been charged, it is quite possible that they may keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.

~~16.4. The difficulty in resolving such errors is demonstrated by the following description of the changes in the processing of Giro transactions:~~

17.4. ~~16.5.~~ In mid-2008 the method of processing receipts into Giro Bank accounts was changed. Previously, customers completed a two-part paying-in slip. One copy of the paying-in slip was retained by the customer, another was retained in the branch and cross-referenced to the entry made on Horizon. ~~If, for example, the counter clerk accidentally keyed in £2,000 instead of £200 and did not spot that error immediately then, when the next balance was carried out, Horizon would have reported that there should be £2,000 cash in the safe whereas in fact there was only £200 in it (i.e. there would be a £1,800 cash shortfall).~~

17.5. ~~*Prior to the mid-2008 processing change, the Subpostmaster would have been able to identify~~ ***the amount of cash that had been recorded in the system*** ~~by cross-checking with the*~~

~~16.6. *Prior to the mid-2008 processing change, the Subpostmaster would have been able to identify~~ ***that £2,000 cash had been entered onto the system relating to a customer whom,*** ~~by cross-checking with the*~~ **paying-in slip, in fact had only paid in £200. Hence, a correction could have been actioned and the branch's books brought-**

paying-in slip. Hence, a correction could have been actioned and the branch's books brought back into balance. In such a case, the apparent cash shortage would have been eliminated because the audit trail enabled the specific cause of the shortage to be identified and corrected.

17.6. ~~16.7.~~ However, after the processing change, paying monies into Giro Bank accounts was actioned via swipe cards and one-part paying in books with no supporting documentation being retained in branch.

17.7. ~~16.8.~~ After that processing change, the counter clerk would swipe the customer's card to access the account details and then key in the cash deposit. After inputting the deposit, the system printed out just one copy of a receipt (which specifically states on it "NOT TO BE RETAINED") and this was then passed back to the customer along with their swipe card.

16.9. ~~*It follows that, if the counter clerk *had accidentally input £2,000 instead of £200 into Horizon and *did not immediately spot *the error, the balance would show an £1,800* difference between the cash holdings on Horizon and the actual cash holdings* (as in the previous example)*. However, after the processing change, there would be no supporting documentation*~~

17.8. ~~*It follows that, if the counter clerk *did not immediately spot *an error, any later balance would show a* difference between the cash holdings on Horizon and the actual cash holdings** . However, after the processing change, there would be no supporting documentation* available either to the Subpostmaster, or to Post Office centrally. Therefore neither the Subpostmaster nor the Post Office's central processing unit would be able to check whether or not the cash deposit entries on the system reflected the actual amount of cash that had been deposited.~~

16.10. ~~The lack of an audit trail is a fundamental flaw in any accounting system and the revised process made it almost impossible to identify processing errors and action corrections.~~

18. ~~17.~~ Error and fraud repency

18.1. ~~17.1.~~ Normally, when a business detects errors or fraud occurring repeatedly, investigative and analytical work will be carried out to determine whether changes to its ~~s~~Standard ~~o~~Operating ~~p~~Procedures, to its hardware or software, or to its employee training, should be made so as to reduce the likelihood and/or seriousness of future recurrence. This process of investigation and analysis generates, over time, a 'Virtuous Circle' of detection, loss mitigation and process correction/improvement which builds the entire system's robustness and efficiency.

17.2. ~~Businesses are motivated to carry out such improvements when the projected Return on Investment shows that the savings (loss reductions) that will accrue from implementing those improvements will be well in excess of their initial and ongoing cost. If it seems that the cost of reducing those losses will exceed the likely return by way of reducing them, the company may, quite appropriately, take a risk acceptance decision to continue to absorb the losses.~~

paying-in slip. Hence, a correction could have been actioned and the branch's books brought
~~The skill, in Loss Management, is in establishing where losses can be minimised at the lowest possible cost.~~

~~18.2. 17.3. With the exception of Lottery and Scratch Card processing, we have found little evidence that Post Office has utilised the above-mentioned investigation-led improvement process. In not taking responsibility for~~In not fully investigating "errors made at the counter", even where it is obvious that some of those errors have been systematically repeated in a branch, or even across the Network, Post Office seems not to taken 'ownership' of finding ways to reduce (or manage) those errors. ~~This is unsurprising in that the cost of those errors or fraud is, in Post Office's Business Model, generally borne by its franchisees, the Subpostmasters, rather than by Post Office itself (see also The Contract between Post Office and Subpostmasters above).~~

~~18.3. 17.4. This has led to a situation where Subpostmasters have been bearing the cost of losses caused by errors and fraud that could possibly have been designed out of the system, while Post Office has benefitted from the savings it has made by not implementing the improvements that would have reduced them. Since it was not Post Office that would save money by developing more error and fraud-repellent processes, the above-mentioned motivation, that is present in most businesses, has been absent or where improved operational procedures and training could have reduced the incidence and severity of errors made at the counter.~~

18.4. A good example is an issue that has been raised by Applicants in regard to Giro transactions.

*This relates to Horizon operating in Recovery Mode, for example following power or telecommunications failures that resulted in the branch terminals freezing. In these situations *the system* goes through a complete *reboot, then, when it* has finally rebooted, a message appears on screen asking "do you need to recover any Giro transactions?". *

18.5. A few Applicants have reported, when faced with that question, they usually did not have *sufficient information to know whether or not the system *needed* to recover any Giro transactions. If *they responded* in the affirmative, the system *asked* for the details of the Giro transactions that *needed* to be recovered. As the *user did* not have the relevant details to hand (and *could not access the data as Horizon was still completing its reboot process), they were* forced into responding in the negative and hoping that *was the correct response. This often resulted in the 'wrong' answer being entered and transaction errors being generated.

~~17.5-18.6.~~ The following key question, that arises from the above

observations, is: "*Is Horizon fit for purpose?*"

~~17.6. In answering~~18.7. In trying to answer this difficult question, we recognise that, in the vast majority of cases, ~~Post Office's~~

Post Office's Subpostmasters operate their branches year after year with minimal reported problems. For them, the Horizon system appears to be "*fit for purpose*".

~~17.7-18.8.~~ References here to '*the Horizon system*' are mainly focussed on '*Horizon On Line*', which evolved from the original Horizon application. Our comments encompass not only the system itself but also supporting processes and procedures. However, ~~a number of some~~ comments received relate to earlier versions of the system, a number of enhancements having been made following user experience and feedback.

~~17.8-18.9.~~ For the Horizon system to be considered fully 'fit for purpose', for all users it would need to accurately record and process, with a high degree of error repellency, the full range of products and services offered by Post Office, whilst providing a clear transaction audit trail ~~that would allow~~ allowing easy investigation of any problems and errors that ~~arose~~ arise. *The cases that we have reviewed demonstrate that this design objective has not always been achieved* . although some improvements do continue to be made.

~~17.9. *The cases that we have reviewed demonstrate that this design objective has not always been achieved*.~~

~~17.10. The* system would also need to be able to cope with a diverse collection of end users and operate in areas where power and telecommunications reliability could not be taken for granted.*~~

~~17.11. Again, the~~18.10. A fully effective* system would also need to be able to cope with a diverse collection of end users and operate in areas where power and telecommunications reliability could not be taken for granted.* The cases that we have reviewed show us that errors are more likely to occur when unusual sets of circumstances and behaviour are present. We have little doubt that branches with unreliable hardware, or poor telecommunication and poor power supplies, appear to have suffered a disproportionate incidence of problems, some of which became, in effect, life-changing.

18.5. A few Applicants have reported, when faced with that question, they usually did not have ~~17.12-18.11.~~ We have also come to the conclusion that some ~~people were probably of the people~~ appointed by Post Office as Subpostmasters may have been unsuited, from the outset, to the ever-increasing complexity of running a computerised branch. These include those who:

- a) were relatively (or even in some cases totally) new to using a computer;
 - b) had insufficient time and knowledge to be able to investigate and resolve shortages; without quality support and assistance; and
 - c) relied upon staff whom they may have 'inherited' from the prior Subpostmaster and who were either careless, inadequately trained or even dishonest; and
 - d) ~~had insufficient capital to be able to afford to pay in, in some cases overnight, the large sums that from time to time appeared as (perhaps transient) shortage.~~
- ~~17.13.~~

18.12. Where a person, who was either unsuitable ~~or~~, inexperienced or inadequately trained, was faced with problems, perhaps associated with hardware or telecommunications failures and the system's resultant restart and recovery procedures, it was at that moment that an otherwise repairable situation often turned into a catastrophe. For them, and in those ~~very~~ specific circumstances, Horizon could not be described as "*fit for purpose*".

~~18.~~ Giro transactions

~~18.1. An issue has been raised by Applicants in regard to Giro transactions. *This relates to Horizon operating in Recovery Mode, for example following power or telecommunications failures that resulted in the branch terminals freezing. In these situations, *it* goes through a complete *system reboot, then, when the system* has finally rebooted, a message appears on screen asking "do you need to recover any Giro transactions?". *~~

~~18.2. When Subpostmasters are faced with this question they usually will not have *sufficient information to know whether or not the system *needs* to recover any Giro transactions. If *a Subpostmaster responds* in the affirmative, the system *asks* for the details of the Giro transactions that *need* to be recovered. As the *Subpostmaster does* not have the relevant details to hand (and *cannot access the data as Horizon is still completing the re-boot process), the Subpostmaster is* forced into responding in the negative and hoping that *is the correct response. This will often result in the 'wrong' answer being entered and transaction errors being generated.~~

19. One-sided transactions

19.1. Many Applicants have raised concerns regarding transactions involving debit or credit cards where Horizon has processed a transaction but the corresponding charge to the customer's bank account ~~was appears~~ not to have been processed. In other cases the opposite situation occurred, where Horizon rejected (or appeared to have rejected) a transaction, but the corresponding charge to the customer's bank account apparently was processed.

19.2. One possible cause for this might be that telecommunications failures, ~~such as those that disconnect the PINpad (as reported by many Applicants)~~ have occasionally prevented one side of a transaction being processed whereas the other side of it has been processed properly. ~~These sort of processing interrupts might result in customers being charged for goods that they have not received (for example deposits that don't get processed or bills that don't get paid) or customers receiving goods (or cash) for which they have not been charged.~~

19.3. These transaction processing failures would be less troublesome if they were always detected, at the counter ideally, or later by additional control and reconciliation processes carried out by the Subpostmaster or by Post Office itself.

19.4. It is however not yet clear whether Post Office's in-house (after-the-event) reconciliation processes can be relied upon to always detect any one-sided transaction that the

Subpostmaster fails to detect.

- 19.5. Where a customer has been charged for something that he has not received, there is a very high likelihood that he will detect this (for example if he receives a Final Demand for a bill that he believes he has paid) and will complain. On the other hand, where the opposite has happened, and a customer has received cash, or goods, and his bank account has not been debited or his card account has not been charged, it is perfectly likely that he will be unaware of his windfall or will simply keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.
- 19.6. It is important to understand that, where that sort of ~~Horizon-generated~~ error occurs, no evidence of it is visible to the Subpostmaster *unless the customer discloses it*.
- 19.7. We have provided Post Office with examples of ~~these~~ one-sided transactions and our enquiries on this important point are continuing.

20. Hardware issues

20.1. An examination of the hardware in use in a typical branch reveals that much of the equipment appears to be quite old, ~~often ten years or more since being first put into use.~~
~~*This is because much of the bespoke equipment used by Horizon is no longer manufactured*.~~
In some cases it was first put in place more than ten years previously.

20.2. There also seems to be little routine hardware maintenance. Instead, faulty equipment is replaced as and when needed. This process is referred to as "kit swap outs" and principally involves the replacement of broken units with reconditioned ones. Reports of several reconditioned components or units being tried, and failing, before a working one is found, are not unusual. ~~*This is because much of the bespoke equipment used by Horizon is no longer manufactured*.~~ The most commonly raised issues concern printers, PINpads, touch screens, telecommunications equipment and base units.

20.3. Many Applicants believe that faulty equipment could be responsible for otherwise unidentified shortages. Post Office's position on this is that it cannot happen. Enquiries on this point are continuing.

~~20.4. We have also been told of cases where printers may have sent messages to the main Horizon system, reporting that postage labels have been printed, when they have either not been printed, or have been spoiled in such a way that the Subpostmaster was unable to claim the money back from Post Office. In regard to PINpads, the concern is that failures in those could result in partially-processed transactions (see One-sided transactions above), whereas the principal concern in respect of touch screens is that they sometimes go out of alignment, such that touching one icon can result in the execution of steps that are meant to be invoked by an adjacent icon or the accidental mis-keying of values that are ten times greater or less than the intended amount (see Cash withdrawals accidentally processed as deposits and Other counter errors that benefit customers at the expense of the Subpostmaster above).~~

21. Post Office Audit Procedures

21.1. ~~We have come across~~ In many cases ~~where Subpostmasters~~ Applicants have told us that they were not given copies of the Audit Reports relating to their branches and that their enquiries to Post Office, in respect of ~~that Audit~~ those Audits, were never answered.

21.2. It is clear that Post Office's current practice is that each Subpostmaster is provided with a copy of the Audit Report for his branch. We do not know when this current practice was adopted or whether a similar policy applied in prior to 2013 years.

22. Post Office Investigations

22.1. As a result of our investigations we have established that Post Office's investigation team has, in many cases, failed to identify the underlying root cause of shortfalls prior to initiating civil recovery action or criminal proceedings. This includes cases where

~~Subpostmasters~~Applicants brought to the Auditors' or Investigators' attention their own suspicions as to the underlying root causes.

~~22.2. *Many Applicants, and almost all the Professional Advisors, *believe that there was~~

22.2. *Many Applicants, and almost all the Professional Advisors, assert that there was
inadequate investigation prior to suspension (without pay); termination; or civil/criminal action.

22.3. ~~When conducting an investigation~~Based on the cases examined so far, Post Office's investigators seem to ~~default~~have defaulted to seeking evidence that ~~will~~would support a charge of False Accounting~~—~~, rather than carrying out an open-minded investigation into the root cause of any suspected problems. ~~This evidence~~Evidence to support a charge of False Accounting is often easily obtained since, when confronted, during interview, with evidence of obviously over-stated cash figures, the accused person will often readily admit to ~~several counts of~~ falsifying the end of Trading Period Accounts.

22.4. With the exception of an interview conducted in accordance with the Police and Criminal Evidence Act (1984) we note that* the interviewee is not allowed to be legally represented, although they may be accompanied by a 'friend'. *albeit with very limited powers.

22.5. 22.4. These interviews~~Interviews~~ will usually be recorded and, when an admission has been made, this will virtually always trigger a 'Guilty' plea by the defendant **and often an associated repayment proposal.** As a result, Post Office investigators **seem to** have found that, ~~by recording these admissions of False Accounting, this~~ was the key to achieving relatively rapid, and (to Post Office) inexpensive, asset recovery.

22.6. 22.5. As a consequence of this, Post Office's investigators seem to have de-emphasized the importance of unearthing the true root causes of the "*mysterious shortfalls*" that Applicants claimed to have suffered. Even when faced with requests from Subpostmasters for investigative help, this has often been refused. Regrettably, this refusal to provide investigative support is in line with the Standard Contract ~~(see The Standard Contract between Post Office and its Subpostmasters above)~~ but is clearly contrary to ~~Subpostmasters' expectations.~~

22.7. It is clear from comments made by Applicants, that this was clearly contrary to their expectations and that they were* unaware that, under Section 19, Paragraph 12 of the Standard Contract, the Post Office Investigation Division* (POID) does not have a mandate to provide general investigative support to Subpostmasters.

22.8. 22.6. Post Office's instructions to (and training of) its Investigators seems to have disregarded the possibility that the Horizon system could be in any way relevant to their investigations. A consequence of this flawed approach to investigations is that many opportunities for process improvements have been missed.

Document comparison by Workshare Compare on 21 August 2014 14:35:37

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Description	Briefing_Report_Part_Two[1]
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Deletion	
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<u>*Moved to*</u>	
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Moved to	60
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