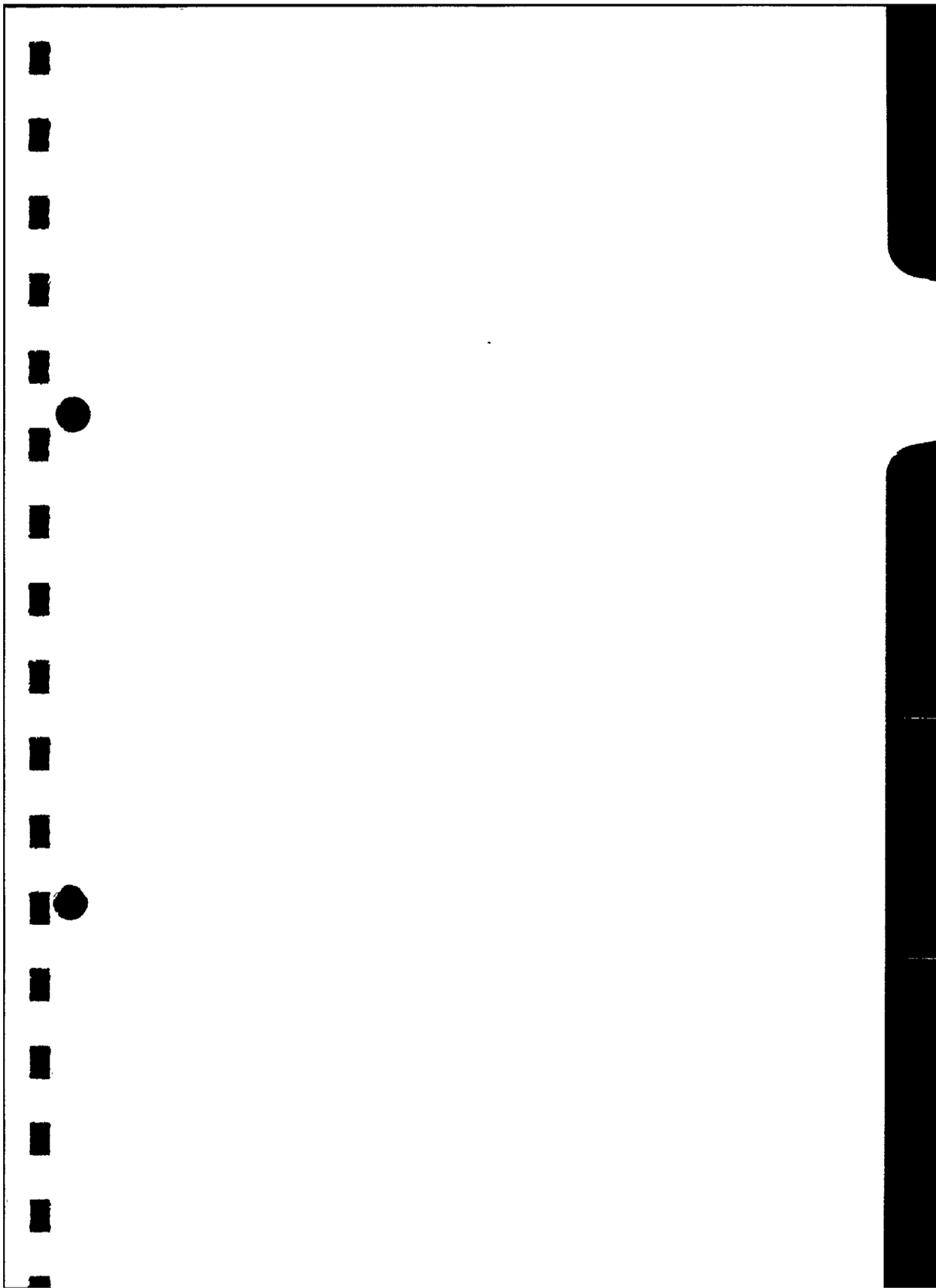


4.15,



From: Susan Crichton [GRO]
To: Alice Perkins [GRO], Paula Vennells

[GRO]
Cc: Lesley J Sewell [GRO], Alwen Lyons
[GRO], Simon Baker [GRO]
Angela Van-Den-Bogerd [GRO]

Subject:

Date: Wed, 6 Jun 2012 18:45:27 +0200

Importance: Normal

Attachments: Horizon- Terms_of_reference.doc; 2nd_Sight - Horizon_Matters - Proposal.ppt

Alice – I have prepared a TOR for the investigation to be undertaken by the independent forensic accountant, at this stage I have not included the extra piece of work where we will want him to explain the facts of the various cases to the relevant MP's. Both Ron and Ian have had experience in dealing with MPs and indeed in Ian's case a group similar to Justice for Sub-postmasters, as you can see from the second presentation which gives details of their careers and their approach to investigations.

Please let me know if you have any questions otherwise we can discuss tomorrow morning, in addition I have emailed Ron Warrington to see if he is available to attend the meeting on 18th June, I have not heard back from him yet.

Susan

Susan Crichton

Legal and Compliance Director

GRO

Telephone:

GRO

#18.1
Metadata

Filename	4.15 TOR for Second Sight to work on the investigation(1).msg	ORIGINAL
----------	---	----------

Draft – Post Office Limited – Strictly Confidential

Terms of Reference

From: Susan Crichton
To: Alice Perkins
Paula Vennells
Cc:

Date: 6th June 2012

Post Office Ltd – proposal for an independent review of past cases

Background

Post Office Limited has decided to conduct an independent review of a number of closed, and possibly some open fraud and theft cases. The background is that the Post Office has, in accordance with its statutorily-authorised powers, pursued cases involving fraud, theft and false accounting principally in the criminal courts. This has resulted in a large number of prosecutions and restitution of stolen funds. In recent years, a number of defendants have asserted that there are issues with the Post Office's National Computer System, 'Horizon'. The defendants claim that the system has been throwing up mysterious differences (shortages) for which they have taken the blame. Some of these cases have been taken up by Members of Parliament and this has resulted in heightened publicity attaching to individual cases and to the issue as a whole. This involvement and publicity has also lent support to assertions that Horizon really is the root cause of the problem and that some of those convicted only made false accounting entries because there seemed at the time to be no other viable course of action. They claim, in effect, that they have been unfairly convicted and financially ruined.

Objectives & Scope

The Post Office has instructed an independent third party organisation, 2nd Sight Limited provide a proposal to conduct a review which would include the following tasks:

Select a representative sample of cases that have led to prosecutions/court-appointed restitution.

The sample needs to cover cases:

- where defendants claim they didn't take any cash
- where assertions have been made that 'The System' (i.e. Horizon) caused the shortage (include old and new versions of Horizon if possible)
- which have been taken up by MPs

Carefully review all company-held documentation focussing heavily on probable reasons why shortfalls occurred or built up

Interview company investigators to gain insights and to verify fairness of findings

Review defence submissions focussing on evidence of innocence (consider separately False Accounting and Theft)

Try to establish why the shortages arose (assign each case to a Probability Category such as: Skill shortfall; Diversion to Failing Business; Straightforward Theft (by whom?); Mysterious Disappearance; etc.)

Review all materials from the viewpoint of the Defence (seek Proof of Innocence and test evidence indicative of guilt)

Study and selectively test, the 'Horizon' system in order to find any 'Black Hole', Program Bug; etc. that might have caused mysterious shortages

Reach conclusions on each case and identify any systemic issues/concerns

Information re independent investigators

2nd Sight Limited investigators have extensive knowledge of complex financial computer systems; Ron Warmington, one of the directors and investigators is a Fellow of the Institute of Chartered Accountants and a member of the Association of Certified Fraud Examiners. He spent 35 years working for two of the world's largest banks in a number of positions including heading up Global Banking Investigations

and European Director of Fraud Management. His fellow Director is Ian Henderson, is also a Chartered Accountant, IT Auditor and a Forensic Computer Examiner. His previous roles have included Head of Investigations at the Personal Investment Authority and prior to that he held a number of roles with Lloyds of London.

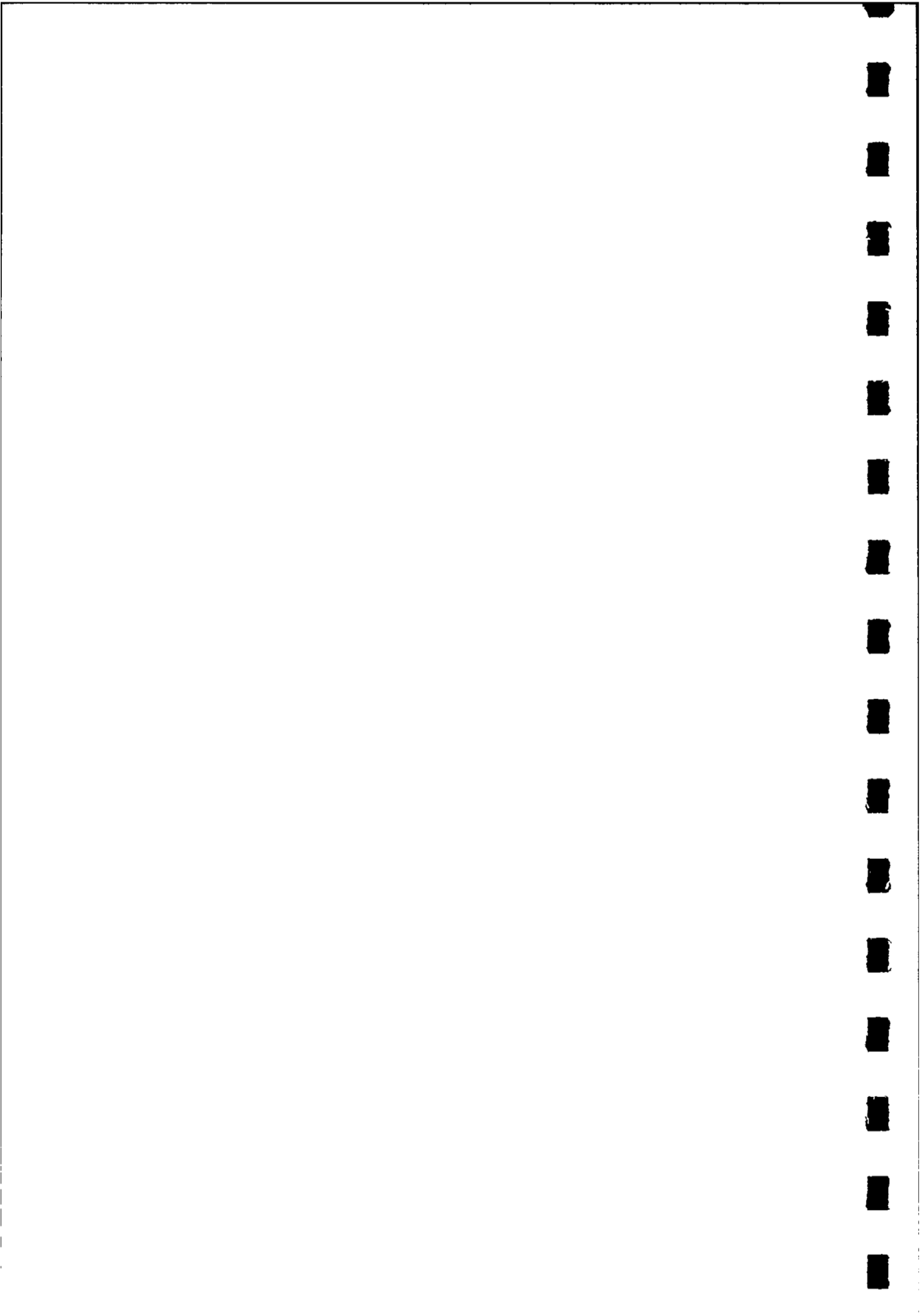
Timescales and Costs

It is anticipated that the review will commence in late June or early July, at present the costings that have been provided are on a time and material basis, it may be possible to move from this once a small number of cases have been reviewed and it is easier to assess how much time is required for each review.

Susan Crichton
June 2012

#51.1
Metadata

Filename	Horizon-_Terms_of_reference.doc	ORIGINAL
----------	---------------------------------	----------



Confidential and Privileged Document

Post Office Limited



Proposal to carry out an Independent Review of past fraud and theft cases in order to determine whether the facts support the business's findings and the charges brought against individuals


2ndSight

Proposal:

Proposal for an Independent Review of past fraud and theft cases:

Second Sight has been invited to carry out a review of a yet to be determined number of closed, and possibly some still open, fraud and theft cases. The background here is that the Post Office has, in accordance with its historical and statutorily-authorized powers, pursued cases involving fraud, theft and false accounting principally in the criminal courts. This has resulted in a large number of prosecutions and restitution of stolen funds. In recent years, a number of defendants have asserted that the Post Office's National Computer System, 'Horizon' is the real culprit here. They claim that it has been throwing up mysterious differences (shortages) for which they have taken the blame. Some of these cases have been taken up by Members of Parliament and this has resulted in heightened publicity attaching to individual cases and to the issue as a whole. This involvement and publicity has also lent support to assertions that Horizon really is the root cause of the problem and that some of those convicted only made false accounting entries because there seemed at the time to be no other viable course of action. They claim, in effect, that they have been unfairly convicted and financially ruined. It has become obvious that a truly Independent and thorough Review needs to be carried out and indeed this has, we understand, been requested by some MPs. This Review would determine, for the sampled cases, whether:

- ▶ the Post Office has thoroughly investigated the facts, including the alleged perpetrator's claims about Post Office systems and other inadequacies
- ▶ there is any indication that assertions that "Horizon is the Real Culprit" have any basis in truth

- ▶ the Courts have been presented with all relevant investigative findings and that any evidence that might support any defendant's case has also been properly considered by the company's investigators and then disclosed to the Court
- ▶ there is any indication, or pattern, as to *where the missing funds really went* (the point here being to review defendants' claims that the false accounting - that most of them have admitted - was their only way out when those "mysterious shortages" hit them)
- ▶ there exists any evidence of systemic flaws or control weaknesses within the old or new Horizon systems and the Post Office's related operational procedures
- ▶ the Post Office has failed to do anything that it should have done... or done anything that it should not have done... in regard to the investigations and prosecutions

Our investigators have extensive knowledge of complex financial systems and a wealth of experience of investigating fraud. They will, as discussed, need to be given powerful rights of access to data and Post Office employees and agents. Clearly, were the Brief, or our investigators' access rights, to be unduly constrained, then the quality and utility of the resultant conclusions would be seriously devalued. We are delighted that, in our initial meeting, there was not the slightest suggestion that the Post Office is calling for anything less than the sort of comprehensive, thorough, independent Review that we would be delighted to undertake.

2nd Sight

Proposal:

Proposal for an Independent Review of past fraud and theft cases, cont'd:

We will bring a dedicated and experienced team to carry out this work and our aim will be to utilise a flexible and scalable approach involving meetings, interviews, documentation reviews and testing to achieve a reliable and robust result. In order that we may deal with prior commitments, we plan to start the work no later than June 26th.

As to our fees, we know that you understand that we cannot, at this early stage, present you with a firm 'total job' budget. We can assure you that you will not be paying for any 'on the job learning' and that, with the sort of good and fast communication that we confidently expect, things will move quickly and therefore at reasonable cost. We will be better able to forecast over-all costs once we have completed the initial review of some of the selected cases and that will give you an opportunity to maintain control over costs. As patterns emerge, over-all conclusions will become easier to derive and more reliable. Our findings will be addressed to Susan Crichton, Legal and Compliance Director... and no Final Report will be issued until a draft has been verbally agreed and approved by the Post Office.

We consequently propose that we work on a 'Time & Materials plus expenses' basis until the work is completed or until such time as the Post Office indicates that it has no further requirements from us.

We propose that our fees, for Ian Henderson and myself, will each be charged at a rate of £1,350 per day (plus VAT and expenses at cost). We envisage that a budget of around £15,000 plus VAT should be allocated for this initial Case Review.

Should you have any queries, or wish to discuss this further... or have us modify this Proposal... please contact myself – or Ian Henderson on

This Proposal is signed, for and on behalf of Second Sight Support Services Ltd. by:

GRO

Ron Warmington, Director

London

June 1st, 2012


2nd Sight

2nd Sight – Core Principles:

At 2nd Sight, we gain and retain clients by being trusted to achieve results that exceed expectations without embarrassing anyone with unreasonable costs. Our **Core Principles** include:

- ▶ If what you need is beyond our capabilities we will tell you that;
- ▶ We will only undertake work that we know we are exceptionally good at delivering;
- ▶ We will at all times work with your people and give credit for their ideas... rather than trying to sell back to you your own work product;
- ▶ We will at all times guard against duplicating the activities of others;
- ▶ We will only recommend investments in procedural change, software, etc. where we are convinced that the net cost of the changes that we recommend will be less than zero;
- ▶ Where we know of others who can serve you better, we will, without cost, recommend them;
- ▶ Where we observe that work we would otherwise carry out could better be done by an existing in-house resource we will tell you that;
- ▶ We will ensure that our range of solutions, wide as it is, is demand-driven not supply-led (i.e. we will not try to convince you that your problems can be hammered into a match with one of our off-the-shelf solutions).


2nd Sight

Case Review – Approach:

This Case Review will include the following tasks:

- ▶ **Select a representative sample of cases** that have led to prosecutions/court-appointed restitution. The sample needs to cover cases:
 - ▶ where defendants claim they didn't take any cash
 - ▶ where assertions have been made that 'The System' (i.e. Horizon) caused the shortage (include old and new versions of Horizon if possible)
 - ▶ which have been taken up by MPs
- ▶ **Carefully review all company-held documentation** focussing heavily on probable reasons why shortfalls occurred or built up
- ▶ **Interview company investigators** to gain insights and to verify fairness of findings
- ▶ **Review defence submissions** focussing on evidence of innocence (consider separately False Accounting and Theft)
- ▶ **Try to establish WHY the shortages arose** (assign each case to a Probability Category such as: Skill shortfall; Diversion to Failing Business; Straightforward Theft (by whom?); Mysterious Disappearance; etc.)
- ▶ **Review all materials from the viewpoint of the Defence** (seek Proof of Innocence and test evidence indicative of guilt)
- ▶ **Study and selectively test, the 'Horizon' system** in order to find any 'Black Hole', Program Bug; etc. that might have caused mysterious shortages
- ▶ **Reach conclusions on each case and identify any systemic issues/concerns**

2nd Sight

Resources - Ron Warmington

Director, London, United Kingdom

Contact Information:

Direct
Mobile
Email

GRO

Areas of Expertise:

- Managing large and high profile fraud investigations
- Interviewing both witnesses and suspects
- Liaising with legal teams and law enforcement
- Preparing affidavits, witness statements and expert witness reports
- Advising on how to improve Fraud Awareness
- Assessing systems in order to identify control weaknesses, and devising cost-effective ways to repair them
- Advising and implementing anti-fraud programmes and policies
- Reducing Credit and Fraud Losses in Financial Institutions
- Getting to the underlying truth in highly complex fraud situations, for example where employees have been falsely accused and evidence planted to draw attention away from the true perpetrator

Ron is a Fellow of the Institute of Chartered Accountant and a Member of the Association of Certified Fraud Examiners.

In his 44-year career, Ron spent 35 years in two of the world's largest banks: Citibank and GE Capital. Prior to moving into the field of fraud investigation, Ron held a number of senior positions, in Systems and Process Design, Technology Audit; Internal Audit and Investment Management, including serving as Regional Head of Internal Audit and as CFO of Citigroup's Global Investment Management Business. He also served as a member of Citigroup's European Audit Committee. Since then, he has spent over twenty years specialising in bank fraud investigations and fraud management, including heading up Global Banking Investigations (and European Director of Security) at Citigroup. In 2001, Ron joined GE Capital as European Director of Fraud Management, leaving in 2009 to undertake contract investigations and fraud management business through his company: 2nd Sight.

Ron has led hundreds of investigations in every aspect of banking and finance, including: Retail and Card businesses; Commercial Lending and Investment Banking; Trading and Derivatives (including 'Rogue Trader' cases); Investment Management; Mortgages (including sub-prime); Asset-based Finance; Internal fraud and corruption at all levels; and Commercial & Trade Finance

2nd Sight

Resources – Ian Henderson

Contractor, London, United Kingdom

Contact Information:

Mobile
Email

GRO

Areas of Expertise

- The acquisition and examination of evidence derived from computers and other digital devices
- Expert witness testimony on technology matters at various Courts and Tribunals including as an expert instructed by the Crown Prosecution Service
- The investigation of complex or high profile fraud involving technology issues
- Managing large or high profile fraud investigations
- Interviewing both witnesses and suspects
- Liaising with IT specialists, legal teams and law enforcement
- Preparing affidavits, witness statements and expert witness reports
- Assessing systems in order to identify control weaknesses, and devising cost-effective ways to repair them
- Advising and implementing anti-fraud programmes and policies

Ian is uniquely qualified as an investigator, a Chartered Accountant, an IT Auditor and a Forensic Computer Examiner. Professional qualifications include FCA, CISA and CCE.

Ian was previously Head of Investigations at the Personal Investment Authority. Immediately prior to this, Ian held a number of senior regulatory roles at Lloyd's of London. As Manager of the Lloyd's Loss Review Department, Ian was responsible for the independent investigation of financial losses exceeding £800 million. He was also Manager of the Action Group Support Unit who worked closely with members of Lloyd's who were disputing liability for Lloyd's losses. In this role Ian dealt directly with Members of Parliament who were raising a various issues concerning Lloyd's losses.

Ian has examined over 300 personal computers, network servers and personal digital devices in the last 5 years. He has also been responsible for over 20 major fraud investigations and has directly facilitated substantial financial recoveries as a result of examining the digital evidence. He has been appointed as the Court's computer expert in civil cases in both England and Scotland and has given evidence as a forensic computer expert in numerous civil and criminal cases, including a major terrorism trial at the Old Bailey. Between January 2001 and July 2005, Ian acted (part time) as Special Advisor to the Criminal Cases Review Commission. Ian was also selected as a contributing author to the Association of Certified Fraud Examiners' "Fraud Casebook".

#65.1
Metadata

Filename	2nd_Sight_-_Horizon_Matters_-_Proposal.ppt	ORIGINAL
----------	--	----------