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Private & Confidential

Mike Deaton
Fujitsu Services Limited
22 Baker Street
London
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Our ref ej/FujitsuHorizon/2012

Contact Ervin Joeson
GRO

22 February 2012

Dear Mike,

HNG-X Data Integrity Assessment

We are writing to confirm the terms of the engagement by Fujitsu Services Limited ("Fujitsu" or "you") of KPMG LLP ("KPMG") to provide you with an independent review of the adequacy of controls operating over the completeness, accuracy and integrity of the in built 'audit trail' function in the HNG-X environment.

Background

Subsequent to our detailed proposal and the various joint workshops we have conducted with your team in 2011, we now provide you with a letter of engagement to deliver your requirement of an independent review of the controls operating in the HNG-X environment currently being delivered by Fujitsu to Post Office Ltd. The purpose of this review is to demonstrate whether the system as designed, implemented and operated has sufficient controls in place to address any risks that the 'audit trail' transactional data may not be complete, accurate and stored in such a way as to maintain its integrity. You have identified six specific assertions that you wish us to consider in carrying out this review. These are as follows;

- That all of the baskets in a transaction (a basket is defined as any number of items for one customer) received from the Post Office branch counter balance to zero against the customer payment.
- That the basket received at the data centre corresponds to what the counter staff sees on the HNGX screen.
- The full basket goes into the audit trail.
- All baskets get into the audit trail.
- No extra baskets get into the audit trail (i.e. nothing is added that the counter staff has not seen on the HNGX screen).
- That there is no evidence that the audit trail has been corrupted.



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Scope of the Services

We have based this engagement on the information contained in the Fujitsu document “Horizon Online Data Integrity” ref ARC/GEN/REP/1229 dated 25 November 2011 and subsequent clarification dialogue between KPMG and Fujitsu.

Excluded from scope are the integrity of the Oracle Real Application Clusters and any issues relating to service reliability and stress testing of all or part of the Horizon Online system. Also excluded from scope are the testing of IT infrastructure controls such as general controls reviews and security assessments. Fujitsu assert that these have been covered in separate reviews and audits, and that we may review and refer to the work of those reviews where necessary for the purpose of our testing and reporting.

The deliverable reports from this engagement are not, and will not be treated as, expert witness reports or opinions. As agreed with Fujitsu’s legal counsel, third parties should not rely on the deliverable reports as constituting a formal audit or as having reviewed or proved anything not expressly set out in the reports. Fujitsu have drafted commercial terms governing the potential requirement to distribute the reports externally. This will be agreed with KPMG and included in the final deliverable reports as a condition of its release to Fujitsu’s third parties.

Specifically, KPMG will provide the following services:

Stage 0 - Documentation readiness review:

- An initial review of system documentation including liaison with your system architects to ensure that the documentation is at a suitable level in terms of scope and detail to enable the processing to be understood and the controls to be identified and agreed for inclusion in the formal review and assessment in Stage 1 & 2.
- This will include a series of joint workshops to map our review approach against the documentation, existing audit and review reports, and data-flow artefacts of the HNG-X system. The objective will be to ascertain the quality and availability of data and information required to keep the scope and review as efficient as possible by leveraging past audit reports and documentation to reduce and eliminate scope and re-work. At the conclusion of Stage 0, will work with you to finalise a quote for Stage 1 & 2. At this stage Fujitsu can give KPMG notice in writing that it does not wish to continue this engagement (provided that Stage 0 milestone payment has been made)
 - Stage 0 Deliverables
 - A report which identifies the control points

Stage 1 - Documentation detailed review:

- We would review the system documentation to identify the specific controls that address the six control objective assertions that Fujitsu have identified and which are listed below.
- We would prepare a detailed schedule of specific controls that supported each of the six assertions and which thus require testing. Fujitsu assertions to be validated:



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1. That all of the baskets in a transaction (a basket is defined as any number of items for one customer) received from the Post Office branch counter balance to zero against the customer payment.
 2. That the basket received at the data centre corresponds to what the counter staff sees on the HNGX screen.
 3. The full basket goes into the audit trail.
 4. All baskets get into the audit trail.
 5. No extra baskets get into the audit trail (i.e. nothing is added that the counter staff has not seen on the HNGX screen).
 6. That there is no evidence that the audit trail has been corrupted.
- At the conclusion of our review we would present and discuss our findings to provide you with the opportunity to comment and agree on the controls identified in support of the assertions. We will identify only the key controls as candidates for testing as opposed to an excessive amount of controls which not all may be directly relevant.
 - The deliverable at the end of this stage would be a report listing the specific controls which support the control objective assertions above, together with our opinion on whether the listed controls would, if operated adequately, achieve those objectives.
 - We would also provide a finalised quotation for the Stage 2 resource required to test those controls and provide a report on whether each control operated effectively and whether each of the six control objective assertions were achieved.
 - Stage 1 Deliverables
 - A report detailing possible considerations and recommendations for Fujitsu to meet the above objectives, specifically:
 - Missing controls (ie required control objectives where there is no control);
 - Possible controls, where Fujitsu management decide that a particular control is adequate to achieve the control objective.

Stage 2 - Controls review and testing:

- Carry out detailed testing of design, implementation and operation of each of the key controls agreed to be in scope as defined in Stage 1.
- Carry out data analytical work on the audit trail to determine whether the assertion that all baskets total to zero is correct.
- Report on the operation of each control tested, whether each of the six assertions are met and underpinned by effectively operated controls and whether in our opinion, excluding those controls identified as not in scope in stage 0, we believe the audit trail to have integrity.



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- Stage 2 Deliverables
 - A detailed test report
 - A data analysis report
 - An assertion audit report

Timetable

The project duration will vary depending on the number of controls that require testing. The project is expected to commence on 23rd February 2012 and expected to conclude by 31 July 2012 or earlier. The timing of our work and its performance will be dependent on all relevant information and documentation and access to personnel being made available to us promptly as and when required by us. In order to ensure that Fujitsu is aware of documents and resources required our weekly report will detail all requirements for the next week. We shall use all reasonable endeavours to meet any agreed timetable.

KPMG resources

KPMG will provide the following resources to support Fujitsu during this engagement.

Advisory Director: Ervin Jocson

Ervin will function in this role as the engagement director having overall responsibility for the quality of the advisory services delivered within this engagement to Fujitsu by KPMG.

Engagement Lead: Chris Starnes

Chris will carry out the role of engagement lead and will be responsible for day to day operations of the overall engagement and supporting resources. He will be supported by a team of subject matter experts and experienced auditors for the tasks outlined in this letter.

Fujitsu responsibilities

We will require the following support of Fujitsu in order to achieve timely completion of the project.

- System documentation to be readily available.
- Controls documentation to be available.
- Fujitsu staff to have time available to meet with us and to turn around requests for information and documentation in a timely manner.
- Access to a test system and data that is representative of the live system.



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Our fees

Our fees for this engagement are set out below. Our fees are fixed apart from the number of agreed control points to be tested which will determine the final fee. If there are any material changes to the scope and nature of the engagement or if there are significant delays (which KPMG will detail in their weekly report) in making information, documentation or personnel available to us, we will agree with you in advance of any additional effort and costs being incurred by KPMG. We will keep you informed of project status on a fortnightly basis.

The following fees reflect tiered options for your budgetary purposes; however each option will have a provision for a revised fee estimate for Stages 1 & 2 at the conclusion of Stage 0. Stage 2 in all options assumes 2.9 days effort to test each control per our methodology. Any variation to the fees reflected below will need to be agreed by you in writing.

Based on 10 key controls to be tested

Stage	Number of Days	£Total
Stage 0 - Documentation readiness review	5	13,000
Stage 1 - Documentation detailed review	31	62,474
Stage 2 - Controls testing (based on 10 controls)	29	50,000
Stage 2 - Data analysis	15	30,000
Total	80*	155,474*

Based on 20 key controls to be tested

Stage	Number of Days	£Total
Stage 0 - Documentation readiness review	5	13,000
Stage 1 - Documentation detailed review	31	62,474
Stage 2 - Controls testing (based on 20 controls)	58	100,000
Stage 2 - Data analysis	15	30,000
Total	109*	205,474*

Based on 30 key controls to be tested

Stage	Number of Days	£Total
Stage 0 - Documentation readiness review	5	13,000
Stage 1 - Documentation detailed review	31	62,474
Stage 2 - Controls testing (based on 30 controls)	87	150,000
Stage 2 - Data analysis	15	30,000
Total	138*	255,474*

We shall charge in addition outlays and VAT. Outlays will only include directly incurred 'out of pocket' expenses (any claims to be supported by receipts), billed at cost.



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We will invoice you in arrears on a milestone basis for the fees, linked to completion of the following milestones and payment will be dependent on Fujitsu receiving all deliverables;

- Stage 0 - Completion of high level documentation review
- Stage 1 - Completion of detailed documentation review
- Stage 2 - Completion of controls testing
- Stage 2 - Completion of data analysis

Invoices will be payable in arrears 30 days from the invoice date . The agreed fees described above are based on the scope of work outlined above.

If the parties agree there is any material change to the scope and nature of the assignment, or there are significant delays in making information, documentation or personnel available, KPMG will agree with you in advance any changes to the basis for calculating their fees.

Further it is agreed that if at any stage during the engagement, Fujitsu wishes KPMG to cease work, then it will provide notice in writing, and we agree to stop all work and to incur no further fees until further notice from Fujitsu. Fujitsu will pay all fees incurred up to the date of cessation.

Terms of Business

We accept this engagement on the basis that our General Terms of Business, as set out in Appendix 1 (as amended below), will apply to this work and govern our relationship with you. This letter is the "Engagement Letter" mentioned in our General Terms of Business. Please read these Terms carefully. There are various exclusions and limitations on our liability and associated obligations imposed on you. Through our contract with you we aim to clarify your and our obligations and responsibilities and we seek to protect ourselves, other members of the KPMG organisation and our people. We draw your attention in particular to the following clauses of our General Terms:

Clause 4: We set out here the obligations imposed on us in respect of your Confidential Information. For our marketing or publicity purposes we are permitted to make general references to our relationship with you and to work performed for you, but this clause is deemed modified so that we must obtain your prior written consent before doing so.

Clause 7: We confirm here that our work is performed for you alone and we set out various restrictions on the extent to which you may share with others the product of our work or refer to our name.

Clauses 18 to 24: These set out our position where your interests may conflict with our other clients' interests and clarify our responsibilities in relation to Confidential Information (as defined in clause 4) in the circumstances identified.



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Clauses 31 to 35: We set out here the principal exclusions and limitations on our liability to you. Our liability to you in connection with this engagement for losses shall be limited, on the basis set out in our General Terms, to a maximum aggregate of £800,000. If you wish to bring a claim against us, you must do so within 4 years (subject to the amendment to clause 35.2 below).

Clause 44: This clause will not apply to you as our mainstream work will not include “regulated activities” under the Financial Services and Markets Act 2000. Any “regulated activities” that may be performed will be incidental to our mainstream work and the detailed rules and regulations under the Act applicable to “regulated activities” carried out as part of our mainstream services will not apply.

For the purposes of this engagement only, the following amendments shall be made to our General Terms of Business:

Clause 4: the reference to “ICAEW” is the Institute of Chartered Accountants in England and Wales

Clause 4: in the second paragraph insert “, provided we obtain your prior written consent,” after “in which event”

Clause 10: the fourth sentence is deleted and replaced with “Outlays will comprise directly incurred costs only.”

Clause 15: (i) in the first sentence insert “reasonably” after “you shall supply” and (ii) in the second sentence replace “best” with “reasonable” and (iii) in the third sentence insert “, in your reasonable opinion,” after “and which”

Clause 35.2: in the first bullet point delete “four years” and replace with “six years”

Clause 36: insert at the end of the clause: “Your liability to compensate and reimburse us under clause 36 shall be limited to £800,000.”

Confirmation

If you are in agreement with the terms of our appointment, as set out in this Engagement Letter and the attachments, we should be grateful if you would sign the enclosed copy letter and return it to us. If not, ~~or if you require further~~ information or clarification, please do not hesitate to contact me on **GRO**



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We very much look forward to working with you and your team on this project.

Yours sincerely,

GRO

Ervin Joeson
Director, KPMG LLP

Attachments:
Appendix 1: General Terms of Business

I have read and understood the terms and conditions of this letter and attachment and I agree to and accept them.

Signed:

GRO

Name:

ANDREW CROSTON

Position:

CHIEF PROCUREMENT OFFICER

Date:

26th MARCH 2012

Duly authorised, for and on behalf of Fujitsu Services Limited.