

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

Initial Complaint Review and Mediation Scheme

Post Office Investigation Report

Branch Name:	Edmond Post Office	Branch Code:	475329	Case Number:	M021
Applicant Name:	Sunil Paul KHANNA	Status of Case:	Mediation Application	Date of Appointment:	25/04/1996

Executive summary

The Applicant has concerns that issues relating to the branch were not raised with him prior to the audit in September 2008; in particular, that as Subpostmaster he should have been the point of contact for Post Office rather than the Officer in Charge (OIC), Peter Holmes (PH). He also questions why he was never given an explanation by Post Office as to how the loss occurred and did not receive sight of any report from the Post Office Investigating Manager.

The Applicant says he was aware, through his discussions with PH, of Horizon issues and, in particular, a slow connection between the Horizon branch terminals and the Post Office data centres, which made customer service challenging at times. He considers that this may have been a contributing factor to the losses at his branch. He has also suggested that there may have been issues with the advice given by Post Office Helplines, as well as difficulty on occasions in accessing these services.

The Applicant was appointed Subpostmaster at Jesmond Post Office, commencing on 25 April 1996. He remains in post. The premises also contained a pharmacy and the Applicant dedicated his time to this enterprise, which meant he was not involved in running the Post Office branch.

The Applicant appointed PH to manage the branch and in effect PH was responsible for the day to day running of the Post Office, including staff issues, compliance and balancing the branch accounts. PH had previous Post Office experience as a former Subpostmaster as well as conducting relief Subpostmaster duties prior to his appointment at Jesmond Post Office.

Following an audit at the branch on 18 September 2008, the Applicant was informed that there was a net shortage of cash and stock of £46,049.16. This was the first indication that the Applicant says he had that anything may have been amiss with the branch's account. PH was suspended (and subsequently dismissed by the Applicant) after admitting to 'False Accounting', that is to say falsifying the cash on hand figure in the accounts over a period of 6-9 months. PH later pleaded guilty to this charge at Newcastle Crown Court, and in January 2010 was sentenced.

As the Applicant had overall responsibility for performance at the branch (as subpostmaster), and in accordance with the terms of his contract, he was responsible for the shortages amount discovered by the audit. After paying an initial sum of £7,049.16, he agreed to repay the outstanding debt out of his remuneration at the rate of £1,300 per month over a period of 30 months (commencing in December 2008). The debt is now repaid (Doc 001).

Conclusion

Based on the evidence examined as part of the Mediation Scheme investigation, there is nothing to suggest that Horizon was responsible for the shortage discovered by the audit on 18 September 2008. Whilst it is clear that problems with Horizon equipment at this branch had a negative impact on customer service on

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

occasions and must have been frustrating for the branch staff, the HSD (Horizon Service Desk – the central point for branch contact regarding Horizon technical issues and queries) call logs indicate that much activity was going on behind the scenes to rectify the problems. Ultimately, the operation of the branch telephone line was a key root cause of many of the difficulties encountered. This line is the responsibility of the Applicant and the fix was under the jurisdiction of BT who rectified the problem. It would appear that issues under the remit of Post Office were more minor and were settled satisfactorily (Horizon and other hardware problems, etc).

In any event, if over £46,000 in transactions had not registered properly on Horizon one would reasonably expect there to have been a trail of customers and clients querying accounts and transactions; this was not the case. Also, the branch was cash surplus in that they sent back money rather than receiving it generally. If the Horizon system was at fault as the Applicant suggests, it is highly likely that creditor deposit transactions would have been impacted; however, this was not the case.

During Post Office's investigations in 2008, PH stated the branch was losing £3,000 to £4,000 per month when in fact the monthly balancing records show dramatic fluctuations (including significant surpluses). This indicates poor accounting and balancing procedures at the branch, which were the ultimate responsibility of the Applicant.

Post Office's conclusion is that the cause of the £46k shortfall in this case is likely to be the cumulative product of operational errors in the branch by PH or other staff over an extended period of time (such as mishandling cash, mis-keying transactions into Horizon, etc). Alternatively, the possibility of theft or fraud by PH or other staff cannot be ruled out.

PH has admitted to making false entries on Horizon and Post Office believes that extensive false accounting took place in this branch over a 9 month period. Due to this false accounting, any small operational losses would not have shown in the branch's accounts and would only have revealed themselves as a single large loss following the audit in September 2008.

The false accounting also meant that it was not possible at the time of these events, and it remains impossible now, to precisely identify all the erroneous transactions which have caused the £46k shortfall. Post Office is unable to determine the precise nature of some of the branch errors as, by their very nature, these errors happened in branch and were therefore outside of Post Office's knowledge or control. Furthermore, Post Office primarily relies on reviewing the branch accounts to help subpostmasters identify errors but because the accounts in this case have been falsified, it is not possible to distinguish between genuine errors and intentionally false entries.

It would appear that Post Office did not monitor the balancing fluctuations centrally at the time of the events in question; under current Post Office processes such patterns of transactions may have been noted quicker with intervention activity being instigated at an earlier stage.

That said, more robust controls over branch procedures and accounting by the Applicant would have ensured that hidden shortages could not have built up even over a short period. Either the Applicant should have been more aware of operating procedures to allow him to conduct 'spot checks' or other members of staff should have been empowered to perform them in order to create secondary checks on declarations and balances submitted by PH.

Post Office is therefore of the view that the Applicant is primarily culpable for allowing the opportunities for

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

PH or other staff to cause losses in this branch.

The Applicant's complaint

Although the Applicant was not involved in the day to day management of the branch, as Subpostmaster overall branch responsibility was his. Many of the issues he raises are therefore received second hand after discussions with the OIC.

The Applicant has highlighted a number of operational issues that caused problems on an ongoing basis:

- Horizon 'crashing' on numerous occasions, as well as operating very slowly at other times, which made customer service difficult.
- When Horizon 'crashed', there was no documentation provided to assist with the recovery process.
- The Applicant also states that TCs (Transaction Corrections) could be delayed by up to 12 months before being received in branch.
- The Applicant also refers to delays in being able to contact the relevant Post Office Help Desk on occasions when problems arose in branch.

There are also other areas where the Applicant has raised issues that require investigation, namely:

- The Applicant received no notification prior to the Audit of balancing discrepancies at the branch.
- Although the Audit showed a substantial loss, there was no indication, reason or proof given by the Post Office as to how this may have occurred.
- The Applicant also questions why he was suspended even though he had no operational input into the branch on a daily basis.
- Furthermore, the Applicant states in his submission that he has never signed, or received a Subpostmasters' contract.

These issues are addressed in detail in the 'responses' section later in the report.

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

Case Review Actions			
Summary of the information collated by Post Office			
Information available from Post Office records:			
Information area	Information provided with this response	Information not available as beyond retention period	Information not available for other reason
EFC (Electronic Filing Cabinet)	X		
Prosecution/Security File			X Legal Privilege
HSD Call Log & current service level data	X		
NBSC Call Log & current service level data	X		
Horizon Transactional Data	X		
Background information provided in Emails	X		
Office Hard Copy File	X		
Horizon System User Guide	X		
Training Records (from 1996)		X	
Response to issues raised by Applicant			
	Issue raised	Investigation findings	
1.	The Applicant received no notification of any issues regarding shortfalls prior to the audit.	As Subpostmaster, the Applicant was responsible for discrepancies in branch, as outlined in his contract (Doc 002, page 49). Although he was an absentee Subpostmaster, the onus was on him to be aware of relevant issues and problems in the day to day running of the branch (which would include balancing). It would appear that this did not happen (Doc 003), as from August 2007 throughout 2008, the OIC (Officer in Charge), Peter Holmes, stopped handing the Applicant a copy of the Branch Trading Statement and the Applicant did not appear to seek one. The discrepancies shown on the previous months Branch Trading Statements therefore came as a surprise to the Applicant when the	

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

		figures were disclosed to him following the Audit (Doc 003). At the time, Post Office was not required to check the balancing record of individual branches as the Subpostmaster contract stated that losses and gains should be made good in branch (Doc 002, page 49), and there was a line on the Branch Trading Statement to show this had been done. The Applicant therefore would not have been contacted by Post Office regarding balancing problems, and it would only have become an issue if he had raised it.
2.	The Post Office claimed that the Horizon System was correct but yet failed to prove how the shortfall in cash came about.	Whilst it appears that the telephone line caused some problems with Horizon at the branch (Doc 004); nothing has been identified to indicate it was responsible for the £46k loss at Audit. The Post Office undertook an investigation into the loss. The Investigating Officer, Robert Daily, noted that Horizon had been checked and allegations about its accuracy were unfounded. The OIC admitted falsifying the accounts over a period of 6-9 months (subsequently pleading guilty to this charge in court). There was originally a suspicion that he had taken the money to supplement the deposits being paid into his wife's cake making business. However, a forensic accountant (employed by the OIC), reported this was not the case to the court. The deposits were transacted in branch by the OIC himself, which was bad practice (personal transactions should be dealt with by another clerk), and the amounts deposited over a 12 month period were similar to the branch loss sustained. Ultimately the OIC admitted 'false accounting', and under the terms of contract, the Subpostmaster was liable for the shortage. The general findings of the investigation however were discussed with the Applicant by Michael Haworth (Agent Contract Manager), during their meeting in Leeds on 9 October 2008. The Applicant signed, as a true reflection (Doc 016 refers), and was provided with a copy of the interview notes. Although he stated he was unaware of the discrepancy until the Audit, he was reminded of his contractual liability to make good the loss, and a discussion was had as to how this would be repaid.

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

3.	The Applicant was suspended (but ultimately reinstated) because of the shortfall, despite him not using the Horizon system, or managing the branch on a day to day basis.	Although a Subpostmaster is permitted to appoint an OIC to manage the branch on a day to day business, the Subpostmaster retains responsibility for adherence to procedures, compliance and balancing. It appears that the Applicant did not exercise enough influence, or control, over the OIC as he was totally unaware of the losses building up prior to the Audit on 18 September 2008. Also, there was previous his story on this subject (albeit on a much smaller scale and many years before), which resulted in an exchange of correspondence (Doc 006) with the Applicant, and an assurance from him that all correct balancing procedures would be followed in future. Remedial and ongoing activity at that stage by him (including robust monitoring systems), may have averted future problems. The OIC did not allow other clerks to complete the Branch Trading Statement, thus ensuring he continued to conceal the losses. Although the Applicant states he told the OIC that other clerks should be involved in this process (Doc 003), he does not appear to have followed this instruction through with regular checks. The Applicant did not appear to be conversant at all with Horizon (he did not have a user name assigned in branch, so obviously did not operate Horizon at any time). The Applicant should have equipped himself with a working knowledge of Horizon, and a more 'hands on' approach would likely have identified problems at a much earlier stage. Part of the agreement for the Applicants later re-instatement was that he undergoes Horizon training in branch, even if he still intended to appoint another OIC to manage the branch on a day to day basis. The Applicant was re-instated in post following his interview with the Agent Contract Manager on 9 October 2008 (resuming his responsibilities on 19 November 2008). It was accepted that the Applicant was not involved (and was unaware), of any of the activities leading to the discovery of the shortage at Audit. Therefore, pending agreeable terms of repayment of the debt, which were forthcoming, the decision was made to re-instate the Applicant with some conditions attached (Doc 001).
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COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

		These included the Applicant undergoing refresher training on Horizon, and appointing a suitable OIC to run the branch in his absence. After checking with the HR (Human Resources) function, and in accordance with his contract and Post Office policy, the Applicant was not remunerated during the period of his suspension (Doc 007).
4.	Horizon system “crashed” on numerous occasions.	There is no reference in the HSD call log for the branch during 2008 (Doc 004), to the system ‘crashing’ (up to the date of the Audit), but the log contains 4 calls relating to Online Services being unavailable. The call originating on 19 February 2008 was particularly complex and was not closed down/remedied until 3 April 2008. The main crux of the problem was an intermittent issue with the telephone line, and as such remedial action could ultimately only be undertaken by BT (as line owners). This appears to have led to delays and frustration within the branch. This would not have impacted on balances as Online Services transactions (Debit cards, Post Office Card Account etc) would not have been available during periods of the line ‘being down’. Such transactions would therefore not have been able to be input at these times.
5.	POL took up to 12 months to send the error notices to the branch and that several were outstanding for this branch.	Transaction Corrections (formerly known as Error Notices) are returned to branches once they are received centrally. The timescale for this process varies significantly dependent upon the type of error made in branch originally. Internal type errors (such as cash shortages or surpluses made up and sent to the Cash Centre), will be highlighted and returned much quicker (generally within a month), than client based errors. For these errors, Post Office is dependent on the client raising the error and confirming it, which can on occasions take many months. The TC record at Jesmond Post Office (Doc 008), covering the period from October 2007 to December 2008 highlights 31 TC’s being returned to branch. Of these, 24 were remittance related errors (highlighted in yellow), although not substantial in value. These errors would have been returned to branch within a short timescale. This type of error suggests poor in branch accounting procedures, especially given the volume here.

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

		There is therefore nothing in the TC data for this period to indicate any delays in the branch receiving errors back, or any anomalies with the errors themselves. There is also no record of the branch chasing TCs themselves; although the OIC stated he thought they may receive TCs back (Doc 005), to offset the growing discrepancy at the branch (even though he was not declaring it).
6.	Horizon would crash during transactions and would then not provide instructions on how to recover the transactions.	There are no specific references in the call logs to the branch requesting information on recovery instructions following a problem with Horizon. Helpline staff have access to relevant information to assist branches who call for assistance on these types of matters, so this help would have been available if required. Also, every branch was in receipt of a number of manuals, one being the 'Horizon System User Guide' which outlined in great details (over 550 pages), all operational elements relating to Horizon (Doc 009). This included large sections on transaction recovery (and the process for dealing with losses and gains), so comprehensive information was already available in branch.
7.	Horizon suffered from slow performance that made it difficult to serve customers.	There is evidence that this was highlighted by the branch to the NBSC (Doc 010, tab1, lines 52 and 53), but this dates back to May 2000. There is no subsequent entry on this subject, although it may be tied in to the poor line performance issues highlighted elsewhere in this report. There is no doubt that this would constitute a major inconvenience within branch, with some customer transactions being delayed or not being able to be undertaken if the Online Services was unavailable. However, this was tied into the wider issue of the problems with the telephone line that ultimately resulted in the visit from BT engineers who remedied the problem.
8.	Delays in being able to contact the NBSC and Horizon helplines.	There are no records in either the NBSC or HSD call logs, in the period prior to the Audit, of the branch making any reference or complaint about the time it took to answer their call. To put this into context, the branch made 12 calls to the NBSC Helpline (Doc 010 Tab 2), and also 13 calls to the HSD (Doc 004), in the period from February 2008, up to

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

		the Audit on 18 September 2008. There are no statistics available from 2007/08 detailing waiting times for calls to be answered, but data is available for the current year to give some flavour. The NBSC calls answered for 2012/13 gives the average answer time in seconds (Doc 011), whilst the HSD call s answered (Doc 012), shows the number of calls answered weekly, with a further figure showing the number of those calls that are answered within 30 seconds. Both sets of figures appear to be satisfactory, but as stated, statistics for 2007/08 are not available.
9.	The Applicant states he never signed or received a contract with Post Office.	All Subpostmasters have to sign various documentation before they can commence in post (Doc 013 refers). The only documentation located from the period relating to the Applicants initial appointment is signed by him, stating he agrees to the terms and conditions outlined in the letter (Doc 014). It should also be noted that the Applicant requested a copy of his contract (and the disciplinary procedure), be sent to him ahead of his hearing with the Agent Contract Manager (Michael Haworth), in (Doc 015). It is not clear whether or not these documents were sent to the Applicant or not. It may be that the Applicant was not in possession of a copy of his contract a t that time, although the process (as outlined in Doc 013), states that a contract would have been left on site for new incumbents (in 1996 in the case of the Applicant), or requested by the Trainer/Audit or from the Agency Recruitment Team.

COMMERCIALLY SENSITIVE AND PREPARED IN CONNECTION WITH MEDIATION

Documents being provided to Second Sight	
List documents (if any)	
Reference	Descriptions
M021_POL_001_Reinstatement Conditions Letter_JO	Letter from Agent Contract Manager
M021_POL_002_Subpostmaster Contract_JO	Blank copy of Subpostmaster contract
M021_POL_003_Applicant Witness Statement_JO	Applicant witness statement given to Investigating manager
M021_POL_004_HSD Call Logs_JO	HSD (Horizon Service Desk) call logs February 2008 – September 2008
M021_POL_006_Audit Shortage 1997_JO	Correspondence trail relating to conformance issues arising from Audit in 1997
M021_POL_007_Remuneration Email_JO	Email from HR (Agent Remuneration)
M021_POL_008_TCs Oct 07 – Dec 08_JO	TC's (Transaction Corrections) received in Branch
M021_POL_009_Horizon User Guide_JO	Horizon System User Guide
M021_POL_010_NBSC Call Logs Nov 99 – Sept 08_JO	NBSC Help Desk Call Logs November 1999 – September 2008
M021_POL_011_NBSC Average Call Time Data 2012-13_JO	NBSC call answer time data 2012-13
M021_POL_012_HSD Average Call Time Data 2012-13_JO	HSD call answer time data 2012-13
M021_POL_013_Contract Information Email_JO	Background historical contract information
M021_POL_014_Conditions of Appointment_JO	Offer of appointment following successful interview 1996
M021_POL_015_Interview Acceptance_JO	Applicant acceptance of interview with Agent Contract Manager
M021_POL_016_Jesmond RTU Interview Notes_JO	Notes from interview between Applicant and Contracts Manager