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**Batten Peter (ShEx)**

**From:** Wilson Katharine (ShEx)  
**Sent:** 25 November 2011 17:16  
**To:** Gibson Will (ShEx); Hoy Jane (ShEx); Whitehead Mike (ShEx); Batten Peter (ShEx); Wake Katie  
**Cc:** Storey Susannah (ShEx); Lowe Roger (ShEx)  
**Subject:** FW: Horizon computer system  
**Attachments:** Horizon BBC Insight Out final Nov 23 2011.doc

Hi

You may already have this information, but in case you don't, see attached and below.

Thanks  
Kat

Katharine Wilson | Royal Mail Team | Shareholder Executive | Department for Business, Innovation & Skills |  
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**From:** David Simpson [mailto:[GRO]]  
**Sent:** 25 November 2011 17:14  
**To:** Lowe Roger (ShEx); Wilson Katharine (ShEx)  
**Cc:** James Mitchell  
**Subject:** Horizon computer system

Roger, Katherine – here is the statement we are using with the BBC Inside Out programme in East Anglia. We expect them to screen an item about the system on Monday evening.

Have a good weekend,  
David

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#### **Statement**

"The Post Office is fully confident that the Horizon computer system in its branches, and all the accounting processes around it, enable subpostmasters to account accurately for the transactions and balances they record.

"The system has been operating for over ten years. In that time, thousands of subpostmasters will have used it in performing many millions of successful weekly and monthly financial reconciliations between the cash they have in the office and the transactions they have handled. The Horizon system has been rigorously tested. The National Federation of Subpostmasters, which represents subpostmasters throughout the country, has expressed its full confidence in the accuracy and robustness of the system.

"All three cases that Inside Out has raised have all had their contracts terminated following the most thorough investigations by the Post Office. In two of the cases this was three years ago; in the other it was 18 months ago. They include a case where there was a subsequent guilty plea in Court to a charge of theft and three cases of false accounting. The Post Office has a duty to the tax payer to ensure that individual branches properly and fully account for the Post Office funds in their possession."

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#### **Specific Cases Mentioned.**

##### **Mr Ward - Rivenhall.**

Mr Ward was suspended in September 2008 following an audit that identified a significant shortage in his account. The shortage was investigated meticulously and this led to Mr Ward's contract for services being terminated in November 2008. Mr Ward appealed against the termination, but after the full application of Post Office Ltd's procedures for such appeals (which are agreed with the National Federation of Subpostmasters), the decision was upheld.

Post Office Ltd is fully satisfied that the Horizon accounting system merely recorded the data entered by Mr Ward and his staff. The audit revealed a shortage of funds compared to what the information entered into Horizon indicated should have been there. There is absolutely no evidence whatsoever to suggest the losses were down to "computer error."

**Mrs O'Dell - Great Staughton**

Mrs O'Dell was suspended on January 2010 following an audit that discovered certain discrepancies. The situation was investigated and Mrs O'Dell's contract was terminated after the full and proper procedures, including a right of appeal, had been undertaken. There is absolutely no evidence that the Horizon system contributed to the losses and Post Office Ltd remains fully satisfied that the system is robust and fit for purpose.

**Mr Warren - Castle Hedingham**

Mr Warren's contract with the Post Office was ended in June 2008 after a large shortage of funds was discovered at an audit. The Post Office followed all the appropriate investigative and contractual processes before ending the contract. Mr Warren pleaded guilty on 30 March 2009 to one charge of theft and three charges of false accounting. On 2nd November 2009 at Chelmsford Crown Court, Mr Warren was sentenced to nine months' imprisonment suspended for 18 months, with an unpaid work requirement of 75 hours.

We note that you state that Mr Ward and Mrs O'Dell say that they have taken their cases to Shoosmiths solicitors. We have received no information or documentation from Shoosmith's with respect to any civil claims being made with respect to these particular branches, and the Post Office believes there is no contractual (or other) basis for such claims. If we were to receive any civil legal claims in respect of these cases, the Post Office would vigorously and fully defend its position. We are fully confident in our position that the Post Office and its systems have operated properly, accurately and fully appropriately for an organisation that handles significant

amounts of public money, and that the Post Office has acted fully in accordance with our business contracts with the parties concerned.

Additional specific questions asked by Maggie Dolan on 22 November

*1. One of the case studies says that the Post Office does not allow independent scrutiny of the Horizon system. Is this the case?*

Horizon and the Post Office systems environment have always been subject to external scrutiny for both assurance and accreditation purposes. Ernst & Young carry out an annual financial systems audit; an independent auditor also carries out a yearly audit to maintain the system's Payment Card Industry (PCI) accreditation. The system and its data Centre are ISO 27001 accredited which requires an annual audit from an independent agency. Horizon is also accredited by HSBC Payment Services and WorldPay (Post Office's Merchant Acquirers) and must comply with the VocaLink standard for card payment transactions. In addition to these regular audits, ad hoc independent audits of the system are initiated by Royal Mail Group and supported by the Post Office.

*2. Have you identified any operational faults with Horizon or other systems and processes that interface with it which could be behind some of the shortfall problems sub-postmasters have had?*

No - the integrity of the Horizon system is sound.

*3. Could you give me a timescale as to when you are likely to answer the questions put to your Managing Director Paula Vennells by the Government about complaints made about the Horizon system?*

We assume you are referring to a number of Parliamentary Questions raised by Mike Weir MP to which Post Office Ltd are in the process of responding. These are not questions that have been asked by Government, they are questions asked by an MP and as they refer to an operational matter, the Government has said that Post Office Ltd will reply. This is in line with normal procedural practice.

*4. As the operational responsibility for the Horizon system rests with the Post Office, is there anything wrong with it?*

"The Post Office is fully confident that the Horizon computer system in its branches, and all the accounting processes around it, enable subpostmasters to account accurately for the transactions and balances they record. The system has been operated successfully for ten years by thousands of subpostmasters who handle millions of transactions every day. The National Federation of Subpostmasters, who represent subpostmasters, has expressed its full confidence in the accuracy and robustness of the Horizon system.

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**General Background**

The Horizon system has been operating for over ten years. In that time over 20,000 different subpostmasters will have used it in performing many millions of successful financial reconciliations between the cash they have in the office and the transactions they have handled.

For the tiny fraction who have not been able to reconcile their cash and transactions, there are tried and tested systems of checking, auditing and following up to determine what has happened. For example, transactions might have been miskeyed (writing 100 instead of 10), a clerk might have handed out too much change, a clerk may have forgotten to take the money for the transaction, there may even have been rare instances of fraud by a customer. These checking and auditing systems resolve virtually all discrepancies satisfactorily. These discrepancies are caused by the same kind of small day-to-day mistakes and human errors that any large bank or retailer would experience.

In a extremely small number of cases after all these checks have been undertaken, there remain significant missing sums that can't be accounted for. In such cases the Post Office may take action to end the subpostmaster's contract as public money is entrusted to the Post Office and it is vital that everything is fully accounted for. If significant money is missing - either as a result of lack of sufficient competence by the subpostmaster or their staff or, in extreme and very rare cases, as a result of dishonesty -it is not appropriate for that subpostmaster to continue to operate the branch, and the Post Office will seek to appoint someone new to take over.



There have been a limited number of cases where Court Action has been taken over missing sums of public money. In some of these cases, the subpostmaster has made allegations against the Horizon system that records their transactions. The Courts have consistently upheld the Post Office position that the Horizon system is accurate and reliable. When former subpostmasters have been convicted of false accounting and/or theft, it is, of course, the Courts that have convicted, not the Post Office. In some cases, the subpostmaster pleaded guilty; in others the Post Office had to provide robust evidence to support the Crown's case. A criminal court will only convict an individual if it considers that the evidence has shown, beyond reasonable doubt, that the individual is guilty of the offences with which they have been charged. The Post Office takes meticulous care to ensure that the Horizon computer system in branches nationwide is fully accurate. Tens of thousands of Post Office branches have used the system to reach financial reconciliations without difficulty.

- The Post Office is fully confident that the Horizon computer system in its branches, and all the accounting processes around it, are absolutely accurate and reliable.
- The Horizon system has been rigorously tested using independently-assured, robust procedures. The Horizon information security processes meet the relevant industry standards which apply to such organisations as banks and building societies.
- Subpostmasters are given fully appropriate training, typically including classroom training and further time on site under close supervision and guidance from a Post Office manager. Subpostmasters can also ring a dedicated helpline for advice.
- The Horizon system has operated successfully for over 10 years across the Post Office network, which currently stands at more than 11,500 branches.
- The National Federation of Subpostmasters, which vigorously represents the views and interests of subpostmasters around the entire country, has gone on record on a number of occasions to express its full confidence in the accuracy and robustness of the Horizon system.



- The Horizon system provides detailed records of every transaction, no matter how small or large, in any individual Post Office branch. Separate records of all key strokes in the system are stored in a tamper-proof way.
- The Post Office handles large sums of public money as well as the money entrusted to it by the 20 million people who visit our branches each week. The Post Office rightly makes every effort and takes all reasonable steps to protect the money in its care.

**Information about document "Losses and Gains Quick Guide  
for Crown Managers**

**There is no suggestion whatsoever in this document to support the assertion that losses are due to the Horizon system.** In fact, the document that you have identified is an internal management document covering managerial processes at the branches - Crown branches - that Post Office Ltd directly operates. The document refers to the 2007/8 year - a time when there were 405 Crown branches. These are typically very large city centre locations employing significant numbers of staff and having a high number of serving positions (typically around 10 per branch) and handling around 20% of the total business across the entire Post Office network.

The document covers the kinds of good managerial practice that any large company handling significant amounts of cash (such as the banks) would apply.

You draw attention to the stated figure of Crown Office losses in 2007/8 amounting to £2.2m.

It is important to be clear about what this figure referred to. The figure represents an end-of-year snapshot on the total cases where clerks have not reconciled the cash and stock (stock here includes value items such as stamps) against the transactions that they have undertaken. This can occur for a number of reasons. The clerk may have recorded the transaction incorrectly (saying they paid out £10 instead of £100); they may have made a mistake when dealing with the customer (giving £10 change instead of £5); they may have given out the wrong stamps (a First Class instead of a Second Class, two stamps instead of one); they may have miscounted the amounts that a customer has paid in; they may have neglected to retain the transactional supporting document; there may be examples of fraudulent activities by the customer (forged documents); a clerk may lose stamps or cash (falling behind a cupboard etc); there may be cases whereby the clerk enters all the details of the transaction, serves the customer but then forgets to take payment from the customer - in most cases the customer would point this out but there are some who

just walk off! In very rare cases there may be actual dishonest activity by a member of staff.

As a result of all the above it is quite feasible for there to be both losses and gains when the clerks' tills are reconciled. This is a situation that can and does occur in any bank or indeed is a situation any retailer which handles millions of transactions per week may experience.

The document shows the sensible managerial practice and checks that any responsible bank or retailer would employ. **None of this implies in any way that there are any issues with the Horizon system.** These kinds of gains and losses occurred when all recording was done manually before any computerised systems (there were similar managerial control systems and guides before any computerised systems). Every bank and retailer will have similar approaches.

You draw attention to a particular phrase in the document and draw attention to the words "accounting error" namely:  
*Additional Notes*

*Managers may apply some discretion should a 'one-off large loss' be incurred with likely mitigating circumstances e.g. known giro error, accounting error identified etc*

This refers to situations where a large loss has been recorded but it is clear to the manager what has happened - in this case "accounting error" is shorthand for perhaps recording something wrongly (keying in £10000 instead of £1000 for example). In such cases although a large loss will have been recorded, it is known that this can be ultimately explained and corrected. All that this "additional note" in the document is saying is that the Manager has discretion in such cases with respect to applying the defined escalation processes of informal and formal interviews that ultimately can lead to possible disciplinary code activity if a clerk is making a series of mistakes. These procedures have been fully agreed at national level with the CWU and form part of the Crown Office Staffing Agreement.

