

Interim Report into alleged problems with the Horizon system

1. Introduction and Scope

1.1. Following discussions with Post Office Limited ('POL') Senior Management in June and July 2012, with the Rt Hon James Arbuthnot MP and with Alan Bates and Kay Linnell representing the Justice for Subpostmasters Alliance ('the JFSA'), Second Sight Support Services Ltd ('Second Sight') was appointed to carry out a review into alleged problems with POL's 'Horizon' System.

1.2. The remit of the Investigation/Inquiry was later defined as:

"to consider and to advise on whether there are any systemic issues and/or concerns with the "Horizon" system, including training and support processes, giving evidence and reasons for the conclusions reached".

1.3. It was also agreed that Second Sight's report would:

"report on the remit and if necessary will contain recommendations and/or alternative recommendations to Post Office Limited relating to the issues and concerns investigated during the Inquiry. The report and recommendations are to be the expert and reasoned opinion of Second Sight in the light of the evidence seen during the Inquiry."

1.4. It became necessary to ensure that references to "the Horizon System" were understood and agreed by all stakeholders. Was Second Sight to look only for defects in the software code of Horizon? Or, was it to take a broader view and also examine:

- a) the surrounding Operational Processes, both at branch level and in POL's central processing centres;
- b) the interfaces between the Horizon system and other systems that are the responsibility of organisations other than POL such as Camelot, the Bank of Ireland, the Co-Op, various Energy Companies and the 'LINK' system for processing Credit and Debit Card payments and withdrawals;
- c) the power supply and telecommunications equipment that connects every Horizon terminal to POL's centralised data centres;
- d) the training available to Sub-Postmasters ('SPMRs') and their staff and whether it was commensurate with the demands of the day-to-day job at the counter;
- e) the actions need to 'balance' at the end of each Trading Period ('TP') and the investigation work needed in dealing with errors and Transaction Corrections ('TCs');
- f) the level of support available to SPMRs and their staff from POL's Helpdesk;
- g) the effectiveness of POL's audit and investigative processes, both in assisting SPMRs who called for help in determining the underlying root cause of shortfalls and in providing evidence for other action by POL such as in Civil and Criminal Proceedings.

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1.5. In answering the question as to whether Second Sight was to only examine the narrowly-defined *Horizon software*, or the far more broadly-defined *Horizon system*, POL's own definition of 'Horizon' provided much of the answer.

1.6. In May 2011, POL's Information Manager defined "Horizon" as follows:

"I can advise that 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, I can advise you that testing and training systems are also referred to as Horizon".

1.7. This POL definition does not include '*audit and investigative processes*', but it quickly became clear that POL's audit and investigation methods have had a profound impact on the SPMRs involved in almost all of the cases we have examined.

1.8. Second Sight's Investigation has consequently addressed matters well beyond the narrow definition of the core *software* component of Horizon in order to ensure that we have adequately dealt with the totality of the concerns raised by SPMRs.

1.9. Before describing the approach adopted in this Investigation, it is necessary to put the scale of the Investigation in context.

1.10. Second Sight has been asked to investigate 47 cases submitted to either the JFSA or to the office of the Rt Hon James Arbuthnot MP. All of these submissions are highly critical of POL's Horizon system and in many cases, the way that POL has dealt with the matters reported.

1.11. The Horizon system involves approximately 68,000 users and processes over 6 million transactions every day. The entire population of over 11,800 branches was notified about the proposed investigation by Second Sight and this resulted in 14 additional cases being accepted for investigation. Whilst in no way minimizing the potential importance of the cases under review, this level of response suggests that the vast majority of SPMRs and branches are at least reasonably happy with the Horizon system.

2. Approach adopted

2.1. Second Sight has examined cases submitted from two sources. The first selection of cases were those submitted by SPMRs, with the endorsement of their constituency MP, through the office of the Rt Hon James Arbuthnot MP. There were 29 such cases.

2.2. The second source of cases was through the JFSA. These cases were submitted in accordance with an Agreement dated December 2012 between POL, Second Sight and the JFSA (see Appendix 5). That Agreement set a cut-off date of 28th February 2013 for the submission of suitable cases to the JFSA, or directly to Second Sight.

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- 2.3. In the event, over 60 SPMRs contacted the JFSA and 18 cases were considered to be suitable for submission to Second Sight. These 18 JFSA-sourced cases were generally simpler, more recent and better documented than the cases submitted via MPs.
- 2.4. In dealing with each case, Second Sight first requested copies of all the documents in POL's Case File. The initial plan was to interview each SPMR after all the POL-sourced documentation had been examined. This has proved to be much more difficult than was expected. Delays in producing case documentation to Second Sight have added materially to the cost of the investigation and to the time taken to complete it. The main problem here seems to be that POL does not maintain one central file for each case. Rather, documents had to be gathered from multiple internal sources.
- 2.5. Where MP sponsored cases have been subject to either Civil Recovery or Criminal Prosecution, POL's centralised Legal Department was able to supply many documents. However, we found that a significant number of cases had not progressed this far and that documentation was held in many locations within POL, including the National Business Support Centre ('the NBSC'), the Helpdesk, the Branch Support Team, the Security Team, the Former Agent Accounting Department, and Legal Services.
- 2.6. In several instances, POL's seven-year Document Retention Policy has meant that little or no documentation was available for Second Sight to examine. The same retention policy applies to the underlying Horizon computer data. In a number of cases we were provided with POL created documents by SPMRs, where POL had been unable to supply the same document, even though it was within the 7 year retention period.
- 2.7. After examining all of the available documents and in some cases the Horizon computer data relating to each case, Second Sight has been making contact with each SPMR in order to obtain, through telephone calls and face-to-face interviews, the SPMR's version of events. Second Sight then summarised the SPMR's assertions into one or more '*Spot Reviews*'. To date, 29 *Spot Reviews* have been created by Second Sight and other *Spot Reviews* are planned. Ten *Spot Reviews* have been sent to POL and a formal response received. Nineteen *Spot Reviews* are currently 'work in progress'.

3. The concept of a '*Spot Review*'

- 3.1. It became clear at an early stage in the investigation that it would not be efficient or cost effective for Second Sight to examine all of the issues raised by SPMRs or covered in POL's Case Files.
- 3.2. Accordingly, and with the consent and approval of both the JFSA and individual SPMRs, Second Sight conducted a '*fast track*' review of the available information in each case and identified the key issues that were relevant to the remit of the Investigation. Each key issue was then dealt with as a *Spot Review*. A case with multiple issues would give rise to multiple *Spot Reviews*, each of which would be dealt with on an individual basis.
- 3.3. It was agreed by POL, Second Sight, the JFSA and the Rt Hon James Arbuthnot MP that any report issued by Second Sight would maintain anonymity with regard to the identity of individual SPMR cases. Accordingly, this Report does not reveal the identity of any of the cases being considered. In

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all instances where POL was asked to respond to specific issues, the SPMR's identity was revealed to POL, but only after the SPMR's permission had been obtained.

- 3.4. This approach to *Spot Reviews* was intended to be a self-contained, easy to understand procedure, free from unexplained acronyms and backed up by SPMR supplied evidential material. Each *Spot Review* was then submitted to POL for a formal response. The POL response was then discussed with both the SPMR and the JFSA and an attempt made to reach agreement and *closure* between POL and the SPMR, as to the issues dealt with in each *Spot Review*.
- 3.5. Regrettably, no such agreement and closure has been achieved to date. In the face of assertions, by both the SPMR and by POL, supported in many cases by only partial or conflicting evidence, Second Sight has attempted to find out what really happened. In most of the *Spot Reviews* investigated, we have been able to find additional information that has been of assistance in understanding what actually happened.
- 3.6. This Interim Report covers 4 *Spot Reviews* where we have been able to reach a preliminary conclusion or at least make substantial progress on the matters being reviewed.
- 3.7. As *Spot Reviews* were prepared, discussed and responded to by POL, Second Sight was able to see a number of '*thematic issues*' that were of concern to many of the SPMRs we have had contact with. These frequently reported issues, some of which are described in *Section 7* of this Interim Report, will be addressed in more detail in the Final Report.

4. Involvement of the JFSA:

- 4.1. At the request of the MPs representing their SPMR constituents and with agreement from POL, Second Sight has worked closely with Mr Alan Bates of the JFSA and with the JFSA's appointed Forensic Accountant Kay Linnell. This developed into a sound working relationship and Second Sight wishes to put on record its thanks to both Mr Bates and Ms Linnell for their help and professional conduct throughout the investigation.

5. Spot Reviews and Responses from POL:

- 5.1. This Interim Report deals with just 4 of the 29 *Spot Reviews* so far prepared by Second Sight. These 4 *Spot Reviews* deal with events that are typical of the matters reported to Second Sight by many of the SPMRs we have had contact with. They also relate to matters that appeared, both at the time they were issued to POL and when the selection was made for inclusion in this Interim Report, to be particularly relevant to the remit of the Investigation.
- 5.2. Second Sight has asked POL to deliver *Spot Review* responses that would prove as easy to understand as the *Spot Reviews* themselves; that addressed the spirit, as well as the letter, of the SPMRs' complaints; and that were backed up by evidence.
- 5.3. Whilst the *Spot Review* responses received from POL can be seen to be thorough, they are long and highly technical documents. In some cases, they present counter-assertions, based on Standard

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Operating Procedures and Controls, rather than tangible evidence of what actually happened. Accordingly, it has been necessary to summarise and simplify the responses received.

- 5.4. Our experience over many years, shows that even apparently robust controls sometimes fail to work, or can be circumvented by a determined and skilful person. Second Sight is therefore seeking further evidence in support of POL's responses to some of the issues covered by the *Spot Reviews* dealt with in this Interim Report.
- 5.5. It is of course hard for POL to prove the negative (i.e. that controls have not been circumvented) but it is only fair to say that POL now finds itself in the same situation that has faced all of the SPMRs who have submitted cases. They too, were unable to prove that the shortages or transactions that they reported to POL, and in respect of which they sought POL's help, were not the result of their own (or their employees') errors or criminal activity. In every case we have looked at, only limited assistance has been provided to SPMRs by POL.
- 5.6. In the 4 *Spot Reviews* covered by this report, POL has only acknowledged minor failings in the implementation of its procedures and processes, or in other relevant areas. It has agreed in principle to a number of process improvements relating to the matters under investigation by Second Sight, and some of these have been implemented already.
- 5.7. Many of the SPMRs we have dealt with remain aggrieved and dissatisfied with what they see as POL's defensive and unsympathetic response. Whereas we had expected that some form of closure would be reached between POL and the SPMR associated with each *Spot Review*, this has so far not been achieved.

6. Did defects in Horizon cause some of the losses for which SPMRs or their staff were blamed?
 - 6.1. There is still much work to be done on the cases Second Sight has been asked to investigate. We have concluded in one of the four *Spot Reviews* covered by this Interim Report (*Spot Review SR01*) that, although the Horizon system operated as designed, the lack of timely, accurate and complete information presented to the SPMR was a significant factor in his failing to follow the correct procedure.
 - 6.2. In that incident, shortcomings in the branch's primary and fall-back telecommunications equipment exposed a weakness that led to a poor counter-level experience both for the SPMR and his customer.
 - 6.3. We also note, in *Spot Review SR22*, that POL made a change to its standard operating procedures for Scratch Cards, just a few days after the SPMR was suspended. It is possible, that if this change had been implemented earlier, many of the problems would not have occurred.
 - 6.4. In the course of our extensive discussions with POL over the last 12 months, POL has disclosed to Second Sight that, in 2011 and 2012, it had discovered "defects" in Horizon online that had impacted 76 branches.

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- 6.5. The first defect, referred to as the "*Receipts and Payments Mismatch Problem*", impacted 62 branches. It was discovered in September 2010 as a result of Fujitsu's monitoring of system events (although there were subsequent calls from branches). The aggregate of the discrepancies arising from this system defect was £9,029, the largest shortfall being £777 and the largest surplus £7,044. POL has informed us that all shortages were addressed at no loss to any SPMR.
- 6.6. The second defect, referred to as the "*Local Suspense Account Problem*", affected 14 branches, and generated discrepancies totalling £4,486, including a temporary shortfall of £9,800 at one branch and a surplus of £3,200 at another (the remaining 12 branches were all impacted by amounts of less than £161).
- 6.7. POL was unaware of this second defect until, a year after its first occurrence in 2011, it re-occurred and an unexplained shortfall was reported by an SPMR.
- 6.8. POL's initial investigations in 2012 failed to reveal the system defect and, because the cause could not be identified, the amount was written off. Fujitsu looked into the matter early in 2013 and discovered, and then corrected, the defect.
- 6.9. It seems however, that the shortfalls (and surpluses) that occurred at the first occurrence (in 2011) resulted in branches being asked to make good incorrect amounts.
- 6.10. POL has informed us that it has disclosed, in Witness Statements to English Courts, information about one other subsequently-corrected defect or "bug" in the Horizon software.

7. Frequently reported issues

- 7.1. It has become clear that whereas the Horizon system appears to achieve its intended purpose almost all of the time and operates smoothly for most SPMRs and their staff, some combinations of events can trigger situations where problems occur.
- 7.2. The following issues have been reported to us by multiple SPMRs as being of particular concern about the Horizon system:
 - a) A multi-product system that is far more complex and demanding than, for example, that found in a typical high street bank;
 - b) Multiple transactional interfaces ('hand-offs') to systems outside of Horizon such as Lottery Scratch Card and Bank of Ireland ATMs that cause repeated and possibly large shortfalls that take undue amounts of time to investigate and resolve;
 - c) Unreliable hardware leading to printer failures, screen misalignment (pressing one icon sometimes results in the system selecting an incorrect icon) and failed communications links;
 - d) The complexity of end of Trading Period ('TP') processes and the lack of a 'suspense account' option which would allow disputed transactions to be dealt with in a neutral manner;
 - e) Inexperienced trainers and gaps in training coverage;

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- f) The lack of some form of on-site Supervision and Quality Control similar to that made available to staff employed in POL's Crown Offices;
- g) The receipt of centrally input, overnight 'corrections' and other changes allegedly not input by SPMRs or their staff;
- h) Inadequate Helpdesk support, with responses that are 'script-based' and sometimes cause further or greater problems;
- i) POL investigation and audit teams that have an asset-recovery or prosecution bias and fail to seek the root cause of reported problems;
- j) A contract between SPMRs and POL that transfers almost all of the commercial risk to the SPMRs, but with decreasing support being provided. In its risk reward decision making, POL benefits from any savings, while SPMRs may suffer increased risk.

7.3. We have read all of the examples of problems reported to us by the SPMRs we have contacted. We can't help concluding that had POL investigated more of the "mysterious shortages" and problems reported to it, with the thoroughness that it has investigated those reported to it by Second Sight, POL would have been in a much better position to resolve the matters raised, and would also have benefited from process improvements.

7.4. It may be that a significant limitation in the way that POL responds to matters reported to it are the terms of reference for the POL Investigations Division. The standard contract between POL and SPMRs states:

"The Investigation Division does NOT enquire into matters where crime is not suspected."

7.5. This appears to suggest that POL does not provide any investigation support to SPMRs, except where criminality is suspected. The cases we have examined show that POL does sometimes provide limited investigative support to SPMRs reporting problems, but clearly, POL's ability to do this is constrained.

7.6. It is also unfortunate, in our view, that when POL does investigate cases, there is often a focus on 'asset recovery solutions' without first establishing the underlying root cause of the problem. This is also an example of a missed opportunity to be in a much better position to resolve problems and to benefit from process improvements.

7.7. Another issue raised, by some of the SPMRs that we have had contact with, is the allegation that the only time they were provided a copy of the full contract between POL and SPMRs, was when POL commenced litigation or recovery actions. This is contrary to POL's policy and procedures and enquiries are underway to find out what has happened in the cases where this allegation has been made.

7.8. The 4 *Spot Reviews* where we have been able to reach preliminary conclusions, or at least make substantial progress in investigating the matters raised, are attached at Appendices 1 to 4.

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8. Preliminary Conclusions

- 8.1. This is an Interim Report and there is much work still to be done. Any conclusions reached at this point will need to be updated in the light of new information that arises as the Investigation continues.
- 8.2. Our preliminary conclusions are:
 - a) We have so far found no evidence of system wide (systemic) problems with the Horizon software;
 - b) We are aware of 2 incidents where defects or 'bugs' in the Horizon software gave rise to 76 branches being affected by incorrect balances or transactions, which took some time to identify and correct;
 - c) Occasionally an unusual combination of events, such as a power or communications failure during the processing of a transaction, can give rise a situation where timely, accurate and complete information about the status of a transaction is not immediately available to a SPMR;
 - d) When individual SPMRs experience or report problems, POL's response can appear to be unhelpful, unsympathetic or simply fail to solve the underlying problem. The lack of a 'user forum' or similar facility, means that SPMRs have little opportunity to raise issues of concern at an appropriate level within POL;
 - e) The lack of an effective 'outreach' investigations function within POL, results in POL failing to identify the root cause of problems and missing opportunities for process improvements;
 - f) The end of Trading Period processes can be problematic for individual SPMRs, particularly if they are dealing with unresolved Transaction Corrections ('TCs'). The lack of a 'suspense account' option means that it is difficult for disputed TCs to be dealt with in a neutral manner.



GRO

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8 July 2013



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Spot Review SR01

Appendix 1

- 1.1. The SPMR reports that there were intermittent internet connectivity problems on 4th October 2012. Online payments and withdrawal transactions were sometimes successful, but also failed on occasions. It is likely that Horizon was partially operating through its back-up (mobile phone) connection. Some card payments had to be attempted two or three times before being accepted. At approximately 10:32 hrs, a customer tried to pay his £76.09 telephone bill with his bank debit card, but was not successful. The customer then withdrew £80.00 cash and used this to pay the telephone bill.
- 1.2. The SPMR stamped the customer's telephone bill as evidence of receipt of payment, returning change of £3.91. Several weeks later, the customer returned from holiday to find his telephone had been cut off due to non-payment of the bill. The SPMR's examination of the Transaction Log showed that all components of the transaction had been reversed by POL. The SPMR states that he did not initiate those reversals, nor did he receive any reversal notifications.
- 1.3. The SPMR raised this as an issue with POL but was told that due to cost issues the Horizon transaction data, necessary to fully investigate the matter, could not be requested. The SPMR felt that it was implied that he had stolen the money when he was told to make good the shortage. This meant that 2 people had paid the telephone bill: the customer who handed cash to the SPMR, and also the SPMR on instructions from POL to make good the shortage, after POL centrally had paid the bill.
- 1.4. The SPMR was subsequently informed that he should have had a surplus of £76.09 due to the reversal of the transactions.
- 1.5. POL's 10-page response to Second Sight asserts that the *Spot Review* does not demonstrate any failing in Horizon and that the root cause of the difficulties suffered by the SPMR was his failure to follow the on-screen and printed instructions given by Horizon. POL states that the SPMR should have realised that some transactions had been automatically reversed because:
 - a) when the transactions in question first failed to be processed (because Horizon could not get a response from the Data Centre), Horizon asked the SPMR whether he wished to cancel or retry the transactions in response to which the SPMR opted to retry the transactions;
 - b) when the transactions failed again, the SPMR opted to cancel the transactions;
 - c) Horizon then automatically disconnected and printed a "disconnect" receipt that showed the transactions that had been automatically reversed;
 - d) a standard customer receipt was not produced and this should have told the SPMR that the full transaction had not proceeded;
 - e) following the disconnect, the SPMR was required to log back on and, as part of the standard recovery process, Horizon printed a "recovery" receipt which again showed the transactions that had been reversed and those that had been recovered.

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- 1.6. POL's response states that there were 4 attempts (at roughly 45 second intervals) to send the completed basket of transactions to the Horizon Data Centre. All attempts used a mobile phone (back-up) connection. The SPMR's records all show these connection attempts to have failed. However, from the Data Centre's perspective, one of the attempts did result in all of the data in the Horizon transaction 'basket' being successfully transmitted to the Data Centre but, due to the connectivity issues, the branch did not receive a confirmation of this at the time from the Data Centre.
- 1.7. The cash withdrawal transaction for £80 could not be cancelled as this had already been processed by the Bank.
- 1.8. The net effect of all of this was that, whilst the customer's telephone bill was not paid, the £80 debit to his bank account was correctly processed, even though this was not reported to the SPMR at the time this transaction was entered on the Horizon terminal. The success of this part of the transaction was only notified to the SPMR after the customer had left the Branch. It took approximately 5 minutes for the retry, recovery and reconnection processes to finish.
- 1.9. Procedurally, the SPMR was at fault here because he was not meant to allow the customer to leave the counter until Horizon had finished its Recovery Processing.
- 1.10. The SPMR had stamped the customer's telephone bill as proof that it had been paid, at 10:32 hrs, but he should not have been given it to the customer until the Horizon system had printed out all of the Session Receipts. This did not occur until 10:36 hrs, which was after the customer had left with his stamped telephone bill. It was therefore impossible for the SPMR to return the customer's £76.09 or to retrieve the receipt-stamped telephone bill.
- 1.11. Second Sight is more sympathetic to the SPMR's position than POL appears to have been. POL's view is that the Horizon system operated as designed. In our view, timely, accurate and complete information was not presented to the SPMR at the time the transaction occurred. The delay in providing this information was a significant factor in the SPMR failing to follow the correct procedure.
- 1.12. At the time this problem occurred, there were multiple telecommunications failures in the branch's main data link and Horizon was using a mobile phone link to communicate transaction data over a poor quality signal.
- 1.13. When operating, in that degraded mode, with a complex multi-part transaction (involving communications to the banking system as well as to Horizon), the Horizon system did operate in accordance with its design.
- 1.14. But, not being able to reverse the customer's banking transaction (the £80.00 debit card withdrawal), Horizon relied on the SPMR being able to give the customer all of his money back and either turning him away with his telephone bill unpaid or starting the whole process again.
- 1.15. Even if the customer had still been present when the recovery processes were completed (five minutes after being handed his stamped telephone bill) and even if the SPMR had been able to

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immediately work out what had happened and what remedial actions were necessary, this would not amount to an acceptable SPMR/Customer experience. It also raises questions about the suitability of the mobile phone backup connection and whether a more resilient service should be provided.

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Spot Review SR05

Appendix 2

- 1.1. This SPMR states that on Tuesday 19th August, 2008 he observed an individual in the basement (or a boiler room type area with lots of pipe work) of the Fujitsu office in Bracknell who demonstrated an ability to pass transactions directly into the Horizon system and in so doing to alter, in real time or overnight, the recorded holdings of Foreign Currency in POL Branch Offices. The SPMR also stated that this person, after altering a branch's cash balance, then "*made light of it*" saying "*I'd better reverse that entry now or he'll have a shortage tonight.*"
- 1.2. The SPMR further states that the person did this by generating an outgoing remittance for a branch (known as a 'Rem Out'). The SPMR explained that what he observed was contrary to POL's repeated reassurances that any form of '*remote access*' to Horizon transactions at branch level was possible.
- 1.3. Of potential significance is the alleged comment that "*he'll have a shortage tonight* ." This could mean that the alleged transactions were not directly input to Horizon but to some other system that was linked to Horizon by way of overnight batch processing, or in some other way.
- 1.4. To put this allegation in context, over two years later, in a 7th December 2010 letter to Alan Bates (Chairman of the JFSA), signed by Mr. Edward Davey, MP (the then Minister for Employment Relations, Consumer and Postal Affairs), Mr. Davey gave the following assurance:

"I recognise that the core of the JFSA's concerns relates to the Horizon system to which you attribute the financial discrepancies and shortages which have led to a number of subpostmasters having their contracts terminated and subsequent court action. However POL continues to express full confidence in the integrity and robustness of the Horizon system and also categorically states that there is no remote access to the system or to any individual branch terminals which would allow the accounting records to be manipulated in any way."

POL's response states that:

- a) In August 2008, the basement of Fujitsu's building did contain a Horizon test environment with access to four test versions of Horizon;
- b) It is this test environment that is believed to have been witnessed by the SPMR;
- c) This test environment was not physically connected to the live Horizon system so it was not physically possible for the alleged transactions to have occurred. It is possible that someone showed the SPMR some form of adjustment to the test environment that was misunderstood.
- 1.5. Simply stated, POL has rejected this allegation, stating that none of its staff who were present at the alleged 19th August 2008 meeting, had any access to live data.
- 1.6. POL has suggested that its employee may indeed have used the phrase "*this is the live system*" because, in addition to the test version of the then un-released new version of Horizon ('HNG-X') being accessible from there, so was a test version of the then-current and *live* (old) Horizon system.

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- 1.7. It is unfortunate that, due to the length of time that has elapsed since the alleged visit, neither POL nor Fujitsu were able to identify any individual who met with the SPMR on the date of his alleged visit to Bracknell.
- 1.8. However, on 1 July 2013, the SPMR managed to find an email proving that the meeting took place and identifying one of the POL employees involved. Further urgent enquiries about this matter are continuing.
- 1.9. In view of this conflict of evidence, Second Sight requested and was provided with the email records of 7 POL employees believed to have been working in the Fujitsu office at Bracknell at the relevant time.
- 1.10. Unfortunately, due to a change in email systems, emails from 2008 have not yet been provided to us, but we have reviewed the relevant email records for 2011. This review has shown:
 - a) A number of different teams of POL employees were working in the Fujitsu office in Bracknell in 2011 and possibly earlier. These teams were located on the Ground Floor and the 2nd and 4th Floors of the Fujitsu office.
 - b) An email sent to a number of POL employees in April 2011, including a member of the Testing team in Bracknell, included the following comment:

“Although it is rarely done it is possible to journal from branch cash accounts. There are possible P&BA concerns about how this would be perceived and how disputes would be resolved.”
- 1.11. “P&BA” refers to ‘Product and Branch Accounting’, which is a team within POL that is responsible for the back-office accounting system.
- 1.12. POL has told Second Sight that the comment noted above describes a method of altering cash balances in the back-office accounting system, not Horizon. We note however that any changes to Branch Cash Account balances in this way would be subsequently processed in Horizon using the Transaction Correction (‘TC’) process. This would be notified to SPMRs and requires their consent in order for the TC to be processed. The TC process typically runs on an overnight basis and is necessary to ensure that the back-office accounting system remains synchronised with the Horizon system.
- 1.13. Second Sight notes that this method of ultimately adjusting branch cash accounts in Horizon is similar, but not identical to, what was described by the SPMR, albeit in an indirect rather than a direct way. We have subsequently been told that none of the POL employees working in Bracknell in 2008 had access to the back-office accounting system.
- 1.14. We are left with a conflict of evidence on this issue and our enquiries are continuing, particularly in the light of the new information confirming that the meeting on 19th August 2008 did in fact occur.

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Spot Review SR21

Appendix 3

- 1.1. This SPMR reports a situation where, on 4th Nov 2009, the Horizon system appears to have generated a series of transactions, reversing four Positive Stock Adjustments ('SAPs') that she had entered at 09:04 hrs that morning. The SAPs related to 15,576 stamps left over from the previous Christmas.
- 1.2. The aggregate value of the four SAPs input by the SPMR was £5,577.93. Subsequently, 9 separate Negative Stock Adjustments (transaction reference: 'SAN') appear to have been generated automatically by Horizon. Those nine entries total £6,892.23 which equate to 16,834 stamps. All nine entries were timed at 12:22 hrs and show the SPMR's Identification Code (i.e. as though she had entered them).
- 1.3. The SPMR, however, denies executing any of these SAN adjustments. She states that she was unaware of their existence until long after the Audit of her Branch. She has no idea whether they had any impact on the shortfall attributed to her.
- 1.4. We have found no evidence that POL investigated this combined set of transactions or, if they were investigated, that the findings were ever discussed with the SPMR.
- 1.5. A POL Auditor on 6th January 2010, after becoming aware of the large quantity of excess stamps held by this Branch, asked the SPMR:

"Why didn't you declare your stamps?"

- 1.6. The SPMR states that she told the POL Auditor that she did declare the stamps using the SAP procedure. It is not clear whether the eventual £9,616.66 shortfall, for which POL held the SPMR accountable, included the impact of those stamps.
- 1.7. The SPMR is adamant that she raised this issue with the POL Auditor but states that she was never provided with any answers. Neither the problem with the stamps, nor the SPMR's assertions about intermittent problems with the PIN Pad, raised both at the time of the Audit and in subsequent interviews, seem to have been adequately addressed by POL's investigators.
- 1.8. POL's 3-page response to this *Spot Review* states that:
 - a) Horizon does not generate automatic stock adjustments. The function simply does not exist within Horizon;
 - b) The stock adjustments questioned in this *Spot Review* were all recorded against the SPMR's user ID which demonstrates that those transactions were manually conducted in the branch;
 - c) Even if there were erroneous stock adjustments, these adjustments could not cause the SPMR to suffer a shortfall due to the "double entry" balancing process inherent in Horizon.
- 1.9. POL's response does suggest a possible explanation as to what happened here, stating:

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"The appearance of positive and negative stock adjustments for stamps made by SPMRs on the same day reflects a common non-conformance issue in the manner by which SPMRs inputted data. It led to significant branch conformance instructions in 2009 to encourage branches to record their rationale for why they were using the stock adjustment function."

and continuing:

"Adjustments of the type shown at this branch are indicative of a situation where branches prefer to sell all varieties of 1st class stamps via the same icon (i.e. whether the stamps are standard 1st class or special issue commemorative 1st class). Post Office requires sales via the correct icons to properly drive sales, remuneration and billing data. However, branches found it easier to serve customers by adjusting stock out of "Specials" into "Standard" categories and then making sales from those Standard icons. It is however impossible for Post Office and Fujitsu to say for certain why the SPMR made stock adjustments in this particular branch."

- 1.10. Once again, we are dealing with a conflict of evidence where the SPMR states that she did not enter the stock adjustments and POL states that the Horizon system could not have entered them either. POL has, at Second Sight's request, produced the underlying Horizon detailed transaction data and it will be examined to try to establish what really did happen.
- 1.11. In any event, POL did not arrive at agreement with the SPMR as to what had happened. This failure to arrive at closure has left this SPMR with the powerful and lasting conviction that her "mysterious £9,616.66 shortfall" was wholly or partially accounted for by those transactions that she says she did not enter, even though the system says, on the basis of her User ID, that she did.
- 1.12. Further contact with this SPMR indicates that she remains confused as to what really happened so it is possible that the £9,616.66 shortfall was the result of mistakes made by her or by her staff. Further investigative work is therefore needed and, as yet, Second Sight cannot reach a firm conclusion on this case.

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Spot Review SR22

Appendix 4

- 1.1. This SPMR reports a situation where the Camelot and Horizon records for 'Remitted In' (or 'Remmed-In') Camelot Scratch Cards ('Instants') were out of synchronisation and were incorrectly shown in Horizon. The SPMR claims that the material differences between the two systems resulted in substantial losses being incurred and that POL failed to fully investigate and/or to communicate its findings in respect of those differences.
- 1.2. As an example of this, the SPMR reports, that on 17th February 2010, the Horizon print-out of 'Remmed-in' cards shows £1,280 worth of cards (8 full packs) whereas a POL-produced Excel spreadsheet shows that, on that date, £2,080 worth of cards (13 full packs) were Remmed in. The difference here is £800, which was a shortfall that the SPMR had to make good.
- 1.3. It is clear that this SPMR experienced numerous problems with Scratch Cards and a review of TCs issued to the branch shows that, between 3rd November 2009 and 29th September 2010 (the period during which unexplained losses were occurring at the branch) 36 of the 47 TCs issued to this branch related to Scratch Cards. Also, 13 of those 36 TCs were for amounts exactly divisible by £160 (i.e. the value of a full pack of Scratch Cards).
- 1.4. Those 13 TCs comprised 4 Debit TCs totalling £2,560 and 9 Credit TCs (which serve to reduce the branch's stock value) totalling £7,840.
- 1.5. Together therefore, the 13 TCs produced a net deficiency of £5,280. In pure monetary terms this was approximately 36% of the total shortfall of £14,842 that POL claimed, in the ensuing criminal prosecution, had been stolen by the SPMR.
- 1.6. POL seems to have been aware, well before February 2010, of errors made by many SPMRs in dealing with Scratch Cards. For example, an article in the 17-23 January 2008 Issue of 'Branch Focus' had warned SPMRs that:

"In the last three months there have been over 1,100 Transaction Correction notices issued to branches to a value of £744,000".

- 1.7. We have established that during the relevant period, all packs of Scratch Cards should have been activated on the Camelot terminal before being Remmed-in to Horizon. The SPMR asserts that she was instructed not to do that by POL.
- 1.8. It also transpires that a change to standard operating procedures for Scratch Cards took place a week after this particular SPMR was suspended in September 2010. From this point, SPMRs were no longer required to remit packs of Scratch Cards into Horizon.
- 1.9. It follows, that after September 2010 it was impossible to have packs of Scratch Cards recorded in Horizon whilst awaiting activation. It is also clear that a balance should be struck before the start of trading on a Thursday morning, rather than at 17:30 hrs on a Wednesday evening, as had been the standard practice of this SPMR.

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- 1.10. In its response to this *Spot Review*, POL says that it cannot find any evidence that there is a problem with the Horizon system with regard to Remmed-in Scratch Cards.
- 1.11. POL also states that, during the period being examined in this *Spot Review*, if SPMRs had correctly Remmed-in Scratch Cards to the Horizon system, the final figures recorded in the Horizon system at the end of each day would match the final figure in the Camelot system for the activation of Scratch Cards.
- 1.12. POL's investigation has established that, on 17th February 2010, there were 2 remittance sessions relating to Scratch Cards at this branch. It follows, says POL, that two receipts would have been automatically produced by the Horizon system. The discrepancy in the figures on that day resulted from the SPMR presenting only one of the two receipts. The SPMR, however, disputes POL's assertion, stating that not only did she not make that second entry in Horizon but that she can't recollect ever Remming-in two Scratch Card entries within a 5 minute period.
- 1.13. POL has also told us that:

"Further to the discovery of large Scratch Card losses at Post Office branches (for example £147,000 in aggregate losses were discovered following the audit of 20 branches in and around May 2009), a process change was rolled out during January and February 2012. This process change was designed to significantly reduce loss/waste associated with Scratch Cards".
- 1.14. The SPMR was charged with Theft and False Accounting but the Theft charge was dropped on the basis that the SPMR pleaded guilty to False Accounting. The SPMR was convicted on the False Accounting charge and an order made to repay the £14,842, plus costs of £1,000 and 120 hrs of Community Service. The total of £15,842 was repaid before the court-assigned deadline.
- 1.15. The key issue here, that seems to have been the root cause of this branch's frequent Camelot/Horizon problems, was the difference between the opening hours of the shop and its Post Office Counter. The shop was open from 06:30 hrs until 21:30 hrs from Monday to Saturday and from 08:00 hrs until 21:30 hrs on Sundays, whereas its Post Office counter was only open from 09:00 to 17:30 on Monday to Friday and from 09:00 to 12:30 on Saturdays.
- 1.16. The difference in opening times, particularly on Wednesdays when balancing (incorrectly) took place, and at the end of each Trading Period, meant that the shop was selling Scratch Cards both before, and then long after, its Post Office counter (and therefore the Horizon system) was able to record them.
- 1.17. It was perhaps inevitable, in 'open-all-hours' outlets like this one, that the Horizon and Camelot systems would be 'out of sync' a great deal of the time. It took some time for POL to recognise that its standard operating procedure was presenting a real challenge to this type of retail outlet.
- 1.18. Second Sight notes that the February 2012 system change eliminated the possibility of synchronisation errors between the two systems. This was after a number of interim process improvements.

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- 1.19. The fact that the synchronisation process between the two systems is now far better than it was in 2010 seems to give some support to the SPMR's assertion that the then-existing process was deficient and that her consequent errors were a material factor in the confusion that ultimately led to her conviction for False Accounting.
- 1.20. Further investigative work is needed to get to the bottom of this complex matter.

APPENDIX 5

RAISING CONCERNs WITH HORIZON

Introduction - The Purpose of this Document

This is a paper which has been issued by the agreement of Post Office Limited and the Justice for Subpostmasters Alliance (JFSA).

Post Office Limited is concerned to hear about and determined to thoroughly and even-handedly investigate cases where there have been persistent assertions that the Horizon system (Horizon) may be the source of unresolved shortages in Post Offices.

Post Office Limited cares about its agents, the thousands of subpostmasters and subpostmistresses (SPMRs) operating branches across the land for the benefit of the community. Post Office Limited is committed to the highest standards of corporate governance, openness, probity and accountability. It is happy to be sensibly challenged and believes this to be a good thing.

Post Office Limited also acknowledges that there may be a concern that some SPMRs might not express their concerns because they feel that speaking up would be detrimental to their position, that they may also fear that they will be harassed or victimised if they speak out, and that in these circumstances they may prefer to ignore their concerns than to report them.

Post Office Limited would like to take this opportunity to emphasise that these fears are unfounded. Although SPMRs are not employees of Post Office Limited, Post Office Limited takes seriously any such allegations.

Therefore Post Office Limited, working with JFSA, is setting out in this document a process where you can raise concerns regarding Horizon, and feel comfortable about doing so. Any investigation of any concerns which you may raise will not influence or be influenced by any disciplinary or network transformation actions that already affect you.

This process also applies to all Post Office Limited employees, contractors and agency staff working with Horizon for Post Office Limited.

In summary this document aims to:

- reassure you that you should have no fears about raising any concerns over Horizon, including over victimisation and reprisals;
- provide you with a process for raising any such concerns;
- demonstrate to you that your concerns will be taken seriously and that you will get a response to your concerns; and
- give you options if you are still not satisfied.

However Post Office Limited takes deliberate fraud, dishonesty and illegal conduct against it very seriously, and has a duty to protect Post Office money and take action if it has reasonable suspicions regarding the same. So you should only raise your concerns through this process in good faith, and not frivolously, maliciously or for personal gain.

How to voice your concerns

There are two steps you can take to voice your concerns. You can either contact JFSA in the first instance (see (A) below), or you can go directly to Second Sight Support Services Limited (Second Sight), an independent third party which is already undertaking a review of several Horizon cases in consultation with the Right Honourable James Arbuthnot MP (see (B) below).

(A) Initial Steps you can take with JFSA

1. You can discuss any concerns with JFSA and/or its advisers (contact details at jfsa.org.uk). JFSA undertakes to treat these discussions as confidential. It is then your decision as to whether or not you wish to pursue your concerns through the Inquiry Route set out in Section B below.
2. If you decide to discuss your concerns with JFSA, you should make sure you gather all your evidence together including all relevant documents, transaction references, helpline references, copies of correspondence, contact details and an outline of your concerns and any subsequent discussions with Post Office Limited. You should retain all original documents at this time although they may be required later.
3. You should provide JFSA with photocopies or PDF copies of all relevant documents, which will be examined by JFSA and/or JFSA's advisers.
4. At this time JFSA undertakes that it will keep all information strictly confidential and neither Post Office Limited nor Second Sight will be made aware of any discussions with or submissions to JFSA. JFSA undertakes not to reveal any details about you, your FAD code or branch location to Post Office Limited until JFSA agrees with you that your concerns will be raised as part of the Inquiry.

(B) The Inquiry Route – an Overview

1. The Inquiry will be carried out by Second Sight within a "no blame" framework.
2. If you are a Horizon user (whether as a Post Office Limited employee, contractor or a former or existing subpostmaster), you can submit your experiences of and concerns with Horizon for consideration under the Inquiry through JFSA or by contacting Second Sight at Tythe Farm, Maugersbury, Cheltenham, Gloucestershire GL54 1HR. You must do this by 28 February 2013.
3. Except in a case where deliberate fraud, dishonesty or illegal or unlawful conduct is suspected, no information voluntarily submitted for the Inquiry in good faith will be used for any purpose other than the Inquiry. However, Second Sight may

pass that information to Post Office Limited to enable Post Office Limited to respond to any issues or questions arising out of the Inquiry.

(C) The Inquiry – the Detail

Details of the Remit, Conduct and Output of the Inquiry are set out in the Appendix to this document.

Taking matters further

If for any reason you are not satisfied with the findings and wish to take matters further, you are of course free to pursue other avenues which JFSA can help you with.

Equally, if Post Office Limited has good reason to suspect that there may indeed have been fraud, dishonesty or other illegal or unlawful conduct, it may decide to pursue such matters in the civil or criminal courts.

Dated:

Issued by and on behalf of Post Office Limited

GRO

Signed

Issued by

GRO

Signed

Issued

Support Services Limited

Signed

GRO

APPENDIX

The Second Sight Inquiry – the Detail

The Remit of the Inquiry

The remit of the Inquiry will be to consider and to advise on whether there are any systemic issues and/or concerns with the "Horizon" system, including training and support processes, giving evidence and reasons for the conclusions reached.

The Inquiry is not asked to investigate or comment on general improvements which might be made to Horizon, or on any individual concern raised (see below) save to the extent that it concludes that such investigation or comment is necessary to address the remit.

The Inquiry is not a mediation or arbitration. It is not intended to resolve or affect any dispute there may be between any individual Horizon user and Post Office Limited.

The Conduct of the Inquiry

1. Submission of concerns

As highlighted, you can raise concerns directly with Second Sight. However, you must do so by 28 February 2013.

By submitting a concern you will have agreed that it may be taken forward into the Inquiry process, and that as a consequence Post Office Limited may become aware of the content of the concern.

When submitting a concern, you should seek to ensure that you include all of the relevant facts of your experience of Horizon. You should include a written summary of the concern, all relevant documents, contact details, transaction references, helpline references, copies of correspondence, an outline description of the error incident and any subsequent discussions with Post Office Limited.

Second Sight will decide whether it will investigate an individual concern in detail as part of the Inquiry, having regard to the remit. Second Sight may consult JFSA in connection with this decision. The Inquiry will not consider any concern which becomes the subject of a civil or criminal court case.

2. No Blame Framework

If:

- your concern is submitted in good faith;
- you honestly and reasonably believe at the time of submission that the facts it contains are substantially true and complete, so far as you know;

- the concern is not submitted with the intention of making personal gain (for the avoidance of doubt this does not include the SPMR believing or hoping that SPMRs generally may benefit from the outcome of the Inquiry); and
- the concern does not reveal conduct which is or which is likely to amount to fraud or any other criminal offence, or which may give rise to a civil claim

and subject to there being no overriding public interest to the contrary, Post Office Limited will not subject you to any detriment either as a result of having submitted a concern, or as a result of Post Office Limited becoming aware of any information contained within a concern. For the avoidance of doubt, information already known to Post Office Limited at the time that the concern is submitted may continue to be used by Post Office Limited for any purpose.

3. Establishment and conduct of Inquiry

Post Office Limited will pay Second Sight to conduct the Inquiry within a total budget agreed between Post Office Limited and Second Sight. Second Sight will be contractually obliged to complete the Inquiry within the agreed total budget, and both Post Office Limited and JFSA will co-operate with Second Sight to facilitate this. If the agreed total budget is or is likely to be reached before a report has been published, Post Office Limited and JFSA will meet to discuss options.

All information received by Second Sight from whatever source in connection with the Inquiry will be held confidentially and will only be used for the purposes of the Inquiry.

JFSA can provide Second Sight with anonymised copies of any or all concerns to enable Second Sight to conduct the Inquiry. Second Sight may provide any such anonymised documents to Post Office Limited so that it can provide input and assistance to the Inquiry.

Post Office Limited may provide Second Sight with its own comments on any or all concerns, and on Horizon generally.

In order to carry out the Inquiry, Second Sight will be entitled to request information related to a concern from Post Office Limited, and if Post Office Limited holds that information, Post Office Limited will provide it to Second Sight.

Post Office Limited will provide Second Sight with such hardware, software and technical information and administrative support as Second Sight may reasonably require to carry out the Inquiry.

Second Sight will determine the process it will follow for the Inquiry using its judgment, after consultation with Post Office Limited and JFSA.

The Output of the Inquiry

Second Sight will consult with JFSA, Post Office Limited, and/or any other party as it considers necessary before producing any report. No party may introduce any wholly

new issue or concern at this stage, and the parties will each keep the consultations with Second Sight and their contents confidential.

Second Sight will consider and take into account any comments received from JFSA, Post Office Limited and/or any other consulted party, and may conduct further investigations if necessary in light of the comments (having regard to the agreed total budget). Second Sight will then produce the report by a date agreed between Post Office Limited and Second Sight.

The report will report on the remit and if necessary will contain recommendations and/or alternative recommendations to Post Office Limited relating to the issues and concerns investigated during the Inquiry. The report and recommendations are to be the expert and reasoned opinion of Second Sight in the light of the evidence seen during the Inquiry.

The report may be published. Until it is published, JFSA (and its advisers), Post Office Limited, and any other party consulted by Second Sight will keep the report and evidence confidential.

Second Sight will prepare the report so that so far as is reasonably possible, it may be published without redaction of personal data and/or information that is confidential or commercially sensitive for Post Office Limited or any Horizon user, bearing in mind the primary need to ensure that the report is reasoned and evidence based.