

[POST OFFICE LETTERHEAD]

PRIVATE AND CONFIDENTIAL

Ron Warrington & Ian Harrington
Second Sight Support Services Limited
(By email)

[] August 2014

Dear Sirs

Second Sight's Engagement

I refer to the Part Two Mediation Briefing Report ("the Report") and our letter of 14 August 2014.

The Report gives Post Office cause for concern. It falls well below the standard Post Office would expect from a firm of forensic accountants engaged to prepare an independent evidence-based report into questions of fact. We explained the bases for that concern in our letter of 14 August and in the table of comments it enclosed in respect of the initial draft of the Report you sent us. Unfortunately, it appears that the final version of the Report does not address many of those issues and many of our concerns remain. Accordingly, as we made clear in the 14 August letter, Post Office is now considering its position. It will likely now need to take steps to ensure the full, accurate and balanced factual position in respect of the issues covered in the Report is communicated to the Working Group and to Applicants in order to lessen the risk that the Report creates or exacerbates unrealistic expectations for Applicants about the outcome of their applications and thereby jeopardises the utility of the Scheme.

The purpose of this letter, however, is to outline more general concerns Post Office has with Second Sight's work to date (in addition to the Report), its relationship with Post Office and the Working Group and Second Sight's role within the Scheme. In short, Post Office has become increasingly concerned that Second Sight is failing to fulfil its role as an independent fact-finder engaged by Post Office to assist the Working Group and to aid the speedy and satisfactory resolution of applications in the Scheme. We therefore set out in this letter what those broader concerns are and invite Second Sight to explain how it will [as a matter of urgency] take meaningful steps to allay them.

Second Sight's role and the work product it is expected to produce are clearly set out in the letter of engagement dated 1 July 2014 between Post Office and Second Sight. That letter provides that:

- the Scheme has been set up to resolve Subpostmasters' concerns about "Horizon and associated issues" (clause 2.1);

- Second Sight is a member of the Working Group whose role it is to oversee the Scheme and assist investigating individual complaints (clause 2.2);
- Post Office has engaged Second Sight to provide Services to the Working Group in relation to the Scheme (clause 2.3);
- the Services Second Sight has been engaged to provide are serving as a Member of the Working Group, advising, as requested by Post Office or the Working Group, on the format style and content of documents submitted by Post Office and/or Subpostmasters during the Scheme, investigating specific complaints raised by each Subpostmaster and assisting with reasonable requests made by the Working Group or Post Office (paragraph 1 of Schedule 1);
- Second Sight is to act independently in providing the Services and assessments or opinions it gives shall be without bias and based on the facts and evidence available (Paragraph 4 of Schedule 1); and
- Second Sight shall act with the skill and care of qualified experienced accountants and it is acknowledged that matters relating to criminal law and procedure are outside SS's scope of expertise and accordingly SS shall not be required to give an opinion in relation to such matters (Paragraph 5.1 of Schedule 1).

The terms of the engagement letter make it clear that Second Sight are engaged by Post Office and are paid by Post Office to provide services to the Working Group and Post Office only in respect of and in furtherance of the Scheme and its objectives. You are engaged to provide quality and independent professional forensic accounting services based on your apparent expertise in that field only. Yet, much of Second Sight's conduct to date, and in particular its provision of the Report, appears in several respects to be at odds with those requirements. We explain in more detail the nature of Post Office's concerns.

Second Sight is engaged by Post Office to provide services to the Working Group

First, Second Sight must understand that while you have been engaged to provide independent fact-finding and analytic services, you are engaged and paid by Post Office in order to assist the Working Group. Accordingly, on matters of process, you should ordinarily follow Post Office's and the Working Group's reasonable directions.

For example, Second Sight promised to provide the Working Group with the draft Report in March 2014. You only then did so in August 2014. Given the potential importance of the Report within the Scheme as a whole, the number of parties (not just Post Office) potentially relying on or affected by it and the need for the Scheme now to progress as swiftly as possible, such delay cannot be repeated in future.

What is more, you initially expected comments from Post Office within 24 hours. It is inappropriate in any circumstances for Second Sight, as the service provider, to seek to impose unreasonable and unrealistic deadlines on Post Office and the Working Group. This is especially the case in respect of such an important and lengthy document and where the need,

now, for tight deadlines arises primarily because of lengthy delays caused by Second Sight. Further, on a telephone call between Second Sight and Post Office on 11 August 2014 to discuss the draft Report, Second Sight refused to allow Post Office even to make (let alone consider) any substantive comments on the draft Report on the basis that, so you said, this was outside the agreed process. Post Office wishes to see a speedy resolution of applications through the Scheme, but on any view, such obstructive behaviour is simply unacceptable.

Second Sight have also displayed un-cooperative and otherwise inappropriate behaviour as a service provider to the Working Group in the following ways:

- Post Office has sent 4 briefing notes to Second Sight on specific technical topics in respect of which you requested further information - P&A Fraud, ATM retracts, Suspense Accounts and One-sided transactions. Post Office has received no feedback from you on any of these notes.
- Post Office sent you 10 Spot Reviews on specific process or Horizon issues. Other than a few minor follow-up questions, Second Sight did not provide any feedback on those Spot Reviews before you sought to draw conclusions on the issues they covered in your interim report in July 2013. But even then, the interim report did not refer to 6 of the 10 reviews.
- Post Office has sent letters to Second Sight with comments on 12 [draft CRRs]. The majority of the information Post Office provided in those letters is not referred to at all in the [final] CRRs. Second Sight has to date failed to explain why it appears to have rejected most of the information provided by Post Office.
- Save for one meeting on 31 July 2014, Second Sight has, since the commencement of the Scheme, failed to attend without reasonable explanation any face-to-face meetings with Post Office alone to discuss substantive issues that might affect Applicants.

We expect Second Sight not to repeat such conduct in future and properly to engage with Post Office as its and the Working Group's service provider.

Second Sight's work has not been satisfactory

Secondly, as we pointed out in our letter of 14 August, the draft Report (and now the final Report) strays into areas beyond the subject matter of the Scheme and well beyond Second Sight's professed area of expertise. It also suffers from the various other deficiencies outlined in that letter. This is also plainly unacceptable. Not only do those deficiencies mean that the Report falls well below the standard required by the letter of engagement and expected by Post Office (and, for that matter, that would reasonably be expected by any person engaging reasonably competent accountants), it was provided after considerable delay and in a modified form that was specifically requested by Second Sight to enable it to meet deadlines and properly carry out its role. Post Office considers it reasonable therefore to take the view that Second Sight has had more than sufficient time, opportunity, information and evidence available to it to produce a comprehensive, balanced, evidence-based analysis of the issues it seeks to address in the Report but has seriously failed to do so.

One notable example of this is paragraphs 16.5-16.10 of the Report which replicate, almost verbatim, what one particular Applicant has said in their CQR. Second Sight thus appears to present the process described in those paragraphs as an established fact. Yet, Post Office has not completed its investigation into this case and presented its version of events, so it is premature and, frankly, irresponsible for Second Sight to present such matters as established fact.

Unfortunately, the Report is not the only example of such unsatisfactory work . Second Sight has in the past repeatedly missed deadlines and produced unsatisfactory work product suffering from several of the same deficiencies we have pointed out in respect of the Report. In particular, as we have pointed out on several occasions, much of Second Sight's work is not balanced or based firmly on verifiable evidence. As such, if nothing else, it is likely to be unhelpful to the stakeholders within the Scheme, including mediators, and of limited utility in achieving satisfactory resolutions of applications. For example Second Sight's recent CRR on M019 highlights two issues that are in dispute between the Applicant and Post Office. It does not, however, form any view whatsoever on the outcome of those issues or whether those issues could have been causative of losses in the relevant branch. This CRR is therefore of little or no use to Post Office, the relevant Applicant or a mediator. Indeed, such unhelpfulness is also becoming apparent from the first few completed mediations.

We ask you to explain how you intend to rectify such failings in future.

Second Sight is not performing its proper role

Thirdly, Post Office is concerned about the utility of Second Sight's role within the Scheme as an independent fact-finder. On matters of substance, you should genuinely give Post Office an opportunity to provide, and you should take into account and reflect, its point of view and comments in the same way and to the same degree that you take account of and rely on the views of and information provided by Applicants. The Report is a good example of why Post Office believes this is not currently occurring.

In other words, Second Sight is not engaged merely to attempt to find the facts on whatever basis it chooses and "for its own sake". You have been engaged as fact-finders to aid the operation of an important, bespoke dispute resolution scheme funded (indirectly) with tax-payers' money. Your role is to assist, not hinder, the speedy resolution of applications within the Scheme to the satisfaction of all parties. As such, it is vital that Second Sight takes a balanced and evidence-based approach to its work. Again, the Report is a good example of why Post Office believes this is not currently occurring.

As we have said previously, Second Sight is, of course, free to show, where supported by evidence and analysis, that information provided by Post Office is open to question or incorrect. But it is inappropriate, and again, unhelpful to the Scheme, for Second Sight simply to disregard information without providing a good reason for doing so. If Second Sight is not prepared to consider and record all sides' views equally, it risks creating a perception that it is not impartial and, consequently, it risks jeopardising the integrity and utility of the Scheme.

Second Sight has not provided value for money

Fourthly, Post Office has serious concerns about the value for money it (and, in turn, tax-payers) have received from Second Sight's services. Second Sight has been engaged continuously by Post Office since [month?] 2012 to assist Post Office and the Working Group to operate the Scheme. During that time, Post Office has invested a considerable amount of valuable time and resource to provide Second Sight with a significant amount of information, in some instances on more than one occasion, to assist your investigation into Horizon. However, since [month?] 2012, aside from attending Working Group meetings, Second Sight has only produced two, largely (for the reasons identified above and in our letter of 14 August) unsatisfactory and unhelpful, "thematic reports" and investigated and reported on [x] applications. Second Sight has billed Post Office for approximately £800,000. Post Office does not consider that either the quality or volume of the work Second Sight has produced to date justifies such an amount.

For example, in order to assist Second Sight meet a deadline, [in [x] 20xx] Post Office prepared a "fact-file" on how Horizon works. Content from the fact-file formed the vast majority of the content of Second Sight's July 2013 interim report. Accordingly, Second Sight produced very little, if anything, of value in the interim report, despite billing Post Office approximately [£xxxx] over the relevant period.

Accordingly, we also invite you to explain the value you believe the Working Group, Post Office and Applicants have received for tax-payers' money over the entire course of your engagement and what steps you intend to take, if different to those I mention below, to ensure that it will receive value for money in future.

Despite the issues I have raised above, Post Office remains of the view and stresses that Second Sight's status as a credible, independent investigator is key to the success of the Scheme. Post Office is not looking to fetter that independence or to undermine Second Sight's position.

You have indicated you would provide Post Office with potential new billing arrangements which are linked to the achievement of productivity and/or deliverable targets. We have not yet heard from you on this. We again ask that you provide your proposals in this regard without further delay so that we can ensure we have new arrangements in place by September. [In the light of the matters raised in this letter and our letter of 14 August, Post Office will stop paying any invoices issued by Second Sight in respect of the period from 1 September onwards until you provide such proposals and engage with Post Office to agree a new billing regime.] **[Query if we want to threaten this in a letter which may become public, so perhaps the letter can be followed by a phone call on this point?]** Post Office now considers this to be a matter of the utmost importance in order to ensure it and tax-payers receive value for money.

I look forward to hearing from you by [w/c 1 September] so that I can consider what, if any, further steps Post Office may wish to take to address these issues.

Yours sincerely

[Chris Day]