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Complaint Review and Mediation Scheme

Reply of Post Office Limited to Second Sight's Briefing
Report - Part Two

March 2015

DRAFT

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Applicants' claims through the Scheme**

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Introduction

1. As part of the Complaint Review and Mediation Scheme (the **Scheme**), Second Sight was engaged as a firm of forensic accountants to provide a logical and fully evidenced opinion on the merits of each Applicant's case.
2. On 21 August 2014, Second Sight's Briefing Report - Part Two (**the Report**) was sent as a confidential document to a number of Applicants and their advisors, as well as to Post Office. The purpose of the Report was to describe and expand on common issues identified by Second Sight as being raised by multiple Applicants (**a thematic issue**), the aim being to provide general information that could then be applied in specific cases.
3. Post Office was unable to endorse the Report. In the interests of transparency and with the overriding aim of assisting the resolution of complaints brought under the Scheme, Post Office prepared a Reply in order to correct inaccuracies in the Report and to provide information that the Report did not. This Reply was dated 22 September 2014 and sent to Applicants.
4. Within the first iteration of the Report, a number of issues were said by Second Sight to remain under investigation. Second Sight subsequently issued to Post Office a final version of the Report on XX March 2015.
5. Though Post Office has engaged directly with Second Sight to help analyse what it terms 'thematic' issues and provided comprehensive information and explanations in relation to its processes, the Report still lacks supporting evidence, examples or statistics to substantiate many of the conclusions drawn.
6. Although Applicants have raised a number of issues that relate to similar parts of the Post Office's business, having investigated those cases thoroughly, it is evident those issues turn on the individual circumstances of each case. They cannot, therefore, be said to be 'thematic' issues. Further, Second Sight's 'thematic' issues are based upon the views expressed by 0.03% of the 500,000 people within the Post Office network that have used the Horizon system since its introduction.

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7. As a result, Post Office remains unable to endorse the final version of the Report and has therefore updated this Reply in order to correct errors and provide additional and relevant information that the Report omits. The body of this Reply provides Post Office's detailed comments on each section of the Report.

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This Reply

8. It is recommended that the reader familiarises themselves with Second Sight's Briefing Report - Part One (**the Part One Briefing**) which provides background information on Post Office's processes and procedures. This Reply builds on the information in the Part One Briefing.
9. Care should be taken when seeking to apply the Report's findings and this Reply to individual cases since the extent to which they may or may not apply will very much depend on their specific circumstances.
10. In this Reply:
 - Report means the final version of the Report unless stated otherwise.
 - Reply means this latest version of the Reply unless stated otherwise.
 - References to paragraphs and sections are to paragraphs and sections of the Report unless stated otherwise.
 - 'Applicant' means an applicant to the Scheme whereas 'Subpostmaster' means Subpostmasters in general, whether or not they have applied to the Scheme.
 - For ease of reference, where reference is made below to 'Subpostmasters' or 'Applicants' taking action in a branch, this action could, in most circumstances, also be taken by a Subpostmaster's assistant.
 - All other capitalised terms are defined in the Part One Briefing.

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Overview of Post Office's position

11. Nearly all Applications to the Scheme centre on there being a loss of cash from a branch that the Applicant does not consider that they caused or are liable for. The purpose of this Reply is to help identify those issues that can cause such a loss and those that cannot.
12. In order to identify a loss of physical cash, an investigator needs two pieces of key information:
 - a. How much cash should be in the branch as a result of the transactions processed in the branch. This information is provided by the branch accounts stored on Horizon.
 - b. How much cash is actually in the branch. This is known by conducting a physical count of the cash on hand.
13. Any difference between the above two figures generates a 'discrepancy' which may either be a shortage or a surplus.

Controlling the branch accounts

14. If cash is missing, the first stage of the investigation is to identify the day on which the cash went missing. The transactions for that day can then be reviewed for anomalies (see section 10 of the Part One Briefing) e.g.:
 - Transactions incorrectly recorded (such as withdrawals being recorded as deposits);
 - Values incorrectly entered (e.g. entering £2000 instead of £200).
15. This is done to determine if the branch has made errors that would make the branch accounts inaccurate. This review must be done by the branch staff as only they will know the transactions performed on that day and may recall the correct transaction details. Many branch errors (including the two examples above) are most easily identified in branch. They would not be evident to Post Office unless, for instance, a complaint was made by a customer.

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16. Post Office helps correct branch errors where possible by reconciling Horizon records against data collected on some transactions by third parties such as banks and government departments. Where Post Office detects an error through this reconciliation process, it issues a Transaction Correction to a branch notifying them of the error and requiring an adjustment to the branch accounts.
17. It has been alleged by some Applicants that they have received Transaction Corrections even when they were not at fault. Transaction Corrections are only issued where there is clear evidence of an error in branch. Where the cause of loss rests with Post Office or a third party client, Post Office absorbs that cost and it is not passed back to the branch. This principle underlies the design of Horizon and all Post Office's back office and reconciliation processes.

Controlling cash movements

18. Save when it conducts an audit, Post Office does not have any direct knowledge of what physical cash is actually in a branch - only Subpostmasters have this information. For this reason, branches are required to:
 - Count the amount of cash in the branch daily and record this figure on Horizon as a cash declaration.
 - Count all cash and stock at the end of each trading period and record these figures on Horizon before making good any discrepancies¹.
19. If daily cash declarations are not made by a branch or declarations are made falsely (by declaring that there is more cash in the branch than there actually is) then it is impossible for Post Office, and will be very difficult if not impossible for a Subpostmaster to:
 - Know if cash is missing;
 - Identify the day or days on which cash has gone missing;

¹ See paragraph 8.8 of the Part One Briefing regarding "making good" errors.

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- Identify which member of staff may be the source of errors;
or
 - Locate the erroneous transactions that caused a loss.
20. Daily accurate cash declarations are the most critical aspect of branch accounting. Where these are not performed, losses of cash go unchecked.
21. For this reason, it is critical that Subpostmasters make accurate daily cash declarations as a fundamental requirement of their contract with Post Office. Subpostmasters habitually failing to make cash declarations may find their contracts terminated. Post Office also prosecutes those Subpostmasters who dishonestly make false cash declarations. It is not an excuse to say that a Subpostmaster was poorly trained or received inadequate support in this regard. The need for daily cash declarations is known by all Subpostmasters and is easily done - there is no specialist training or support required. Post Office does not accept that there are any circumstances capable of justifying the commission of the criminal offence of rendering a false account.
22. In the context of the Scheme, there are a number of cases where accurate cash declarations have not been made. Many of these Applicants have challenged Post Office to identify the cause of losses in their branches which they had hidden by falsely accounting. As explained above, identifying the specific source of the losses is not possible where an Applicant has failed to follow the simple but critical task of making accurate daily cash declarations.
23. Subpostmasters are contractually liable for any losses hidden or caused by their inaccurate record keeping whether due to error, dishonesty or otherwise. It is also a well-established common law principle that an agent (e.g. a Subpostmaster) is liable to account to his principal (e.g. Post Office) any sum declared in his accounts.

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Responsibility for losses

24. A number of Applicants have accused Horizon of inaccurately recording the transactions processed at their branch which, they say, shows that they were not liable for the losses in their branches. To date, Post Office has not been provided with any evidence, either by an Applicant or in the Report, of Horizon's failure to record transactions accurately.
25. The Report looks to identify 'thematic' points where Second Sight considers that Horizon may be flawed. However, these points are either un-evidenced or have been proven not to be the cause of losses in branches.
26. Absent any doubt over the integrity of the branch accounts produced by Horizon, Post Office considers it fair to assume that if a loss has occurred then it has been caused in the branch and is something for which, in most circumstances, a Subpostmaster is liable to make good. This reflects the core tenet of the Subpostmaster Contract that Subpostmasters are liable for any loss caused by their carelessness, negligence, dishonest conduct or error.²
27. Post Office has investigated every allegation made about Horizon through the Scheme. It is in its interest, as well as the interest of the 8,000 serving Subpostmasters who have not applied to the Scheme, to identify an issue if one exists. However, there is no evidence of systemic problems with branch accounting on Horizon. All existing evidence overwhelmingly supports this position.

² Clause 12, Section 12

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Post Office's response to section 1 - Introduction

28. Section 1 of the Report provides details around Second Sight's initial investigation and the establishment of the Complaint Review and Mediation Scheme. Although this summary is broadly correct, it does not explain that Second Sight has performed two distinct roles in two discrete phases.
29. In early 2012, a group of Members of Parliament led by the Rt Hon James Arbuthnot MP raised a number of concerns with Post Office over the reliability of Horizon, having been approached by a small number of mainly former Subpostmasters under the banner of the Justice for Subpostmasters Alliance (**JFSA**). These Subpostmasters considered that apparently unexplained accounting issues in their Post Office branches might be the product of a flaw in the Horizon operating system.
30. Given the serious nature of the issues raised, Post Office agreed to appoint an independent firm of forensic accountants (Second Sight) to investigate these claims as a matter of urgency. The basis of Second Sight's initial engagement was reflected in a document for Subpostmasters entitled '*Raising Concerns with Horizon*', and included the requirement to:
- "Consider and advise on whether there were any systemic issues and/or concerns with the Horizon system including training and support processes, giving evidence and reasons for the conclusions reached."*
- This scope of work expressly did not extend to investigating or commenting on any individual concerns raised.
31. After a year's investigation, Second Sight issued an 'Interim Report' dated 8 July 2013 which stated that they had found:
- "no evidence of system-wide (systemic) problems with the Horizon software".*
32. However, Second Sight considered that a limited number of other issues may have contributed to difficulties being experienced by those Subpostmasters who had raised concerns, most notably

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around the effectiveness of the support offered to them by Post Office in their individual cases.

33. Since Second Sight had not found any evidence of systemic issues with Horizon that could affect all Subpostmasters, Post Office decided to establish the Scheme in order to provide an avenue for Subpostmasters to raise their specific concerns regarding "*Horizon and associated issues*" directly with Post Office on an individual, case by case, basis.
34. The purpose of Second Sight's engagement by Post Office changed fundamentally following the establishment of the Scheme. Whereas Second Sight had previously been concerned with reporting to Post Office about the workings of Horizon as a system (and not individual concerns), its remit was now to focus on the individual complaints in the Scheme. In doing so, they were to investigate, as forensic accountants, the specific issues raised by each Applicant as they related to Horizon or associated issues, and report on these to Post Office and the Applicant.
- 35.
36. The 'undertakings' (though this expression has a particular meaning) referred to in paragraph 1.3 of the Report, appear to relate to Second Sight's initial investigation, which was a general review of Horizon which concluded when Second Sight issued its report in July 2013. Accordingly, they are not therefore applicable to the Scheme, being a review of specific issues about Horizon raised by, and particular to, individual Applicants.
37. Those 'undertakings' also do not reflect the '*Raising Concerns with Horizon*' document or the Scheme documentation, both of which have been publicly disclosed, and both of which clearly define the two different stages and different purposes of Second Sight's work. Both documents however, expressly state that Second Sight's work was to be confined to the Horizon system and the training and support processes connected with it.
38. XXXXXThere have always been limits on Second Sight's scope of work and access to and use of materials, despite what it might

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say, and those limits were agreed with Second Sight, MPs and the JFSA. Unfortunately, Second Sight's desire to unilaterally grant itself further investigative powers has distracted from its investigations of Horizon leaving a number of enquiries without a conclusion and has resulted in it offering opinions on topics where it is ill-qualified to comment.

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Post Office's response to section 2 - Limitation of Scope in Work Performed

39. Before and during the Scheme, Post Office has provided Second Sight with a considerable amount of information including:
- a. Spot Reviews;
 - b. Post Office's comprehensive investigation findings into specific cases;
 - c. line-by-line comments on Second Sight's own case reports;
 - d. technical papers on particular issues raised by Second Sight;
 - e. detailed feedback on Second Sight's first thematic report; and
 - f. answers to more than 100 questions posed by Second Sight on thematic issues.
40. Section 2 of the Report, however, suggests that Post Office has not made available all of the information it has previously committed to providing. This suggestion is incorrect, and relates to the three broad areas covered in the following paragraphs.

Access to the complete legal files

41. Second Sight says that it needs access to Post Office legal files because Applicants have raised concerns about Post Office's *"investigative and prosecution processes"*. These matters do not fall within the terms of Second Sight's engagement.
42. Nevertheless, Post Office has provided non-legally privileged material from its relevant 'legal' files. This was done in accordance with the directions of the Working Group (which oversaw the administration of the Scheme) where it was agreed that Post Office would provide the bundle of documents which would have been made available to the defence lawyers and the Courts. This would include documents such as witness statements and exhibits - in short, anything which Post Office relied on to

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support the charge, or which could undermine the prosecution or support the defendant's case. In addition, Post Office agreed to provide, where held, other Court documents such as a memorandum of conviction.

43. At paragraph 2.5 the Report questions whether there have been any miscarriages of justice. The Post Office naturally takes any suggestion of this nature extremely seriously.. In none of Post Office's own investigations, nor through all Second Sight's extensive work has any evidence emerged to suggest that a conviction is unsafe.

Access to the emails of Post Office employees working at Bracknell

44. In 2013, Second Sight asked for the email accounts of a number of Post Office employees dating from 2008. This was in response to an issue raised by Second Sight as part of its initial investigation, prior to the publication of its report in July 2013. The allegation related to whether the Horizon test environment in the basement of Fujitsu's office in Bracknell could have been used to edit live branch data. Post Office explained at the time that it may be difficult to provide such information in view of its age but did, in May 2013, provide the email data it was then able to retrieve.
45. In order to address the allegation more comprehensively, Post Office also provided Second Sight with a witness statement from a key member of staff who worked at a Fujitsu site at Bracknell. This confirmed that the basement was a secure test environment, there was no connection to any live transaction data; live transaction data could not be accessed from the basement; and the basement was never used to access, change or manipulate live transaction data in branches. In addition, Post Office provided Second Sight with a considerable amount of policy documentation relating to the Bracknell office covering systems access, building access and security.
46. The Report links this issue to the possibility of some form of unauthorised remote access to transaction data because of complaints made by a number of applicants alleging unexplained

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changes to transaction data. Post Office notes that no evidence of unexplained alterations of transaction data has been provided and remains unclear about the information Second Sight is seeking from the provision of email data. However, following further discussions with Second Sight, Post Office has now provided a further set of email data for August 2008.

46. Transaction data relating to third party client accounts

47. In June 2014, Second Sight asked Post Office to explain the operation of its Suspense Account. Post Office replied to that request in a written paper in July 2014. Second Sight then made a request for further data on the accounting entries being posted to the Suspense Account. Given that the purpose of this request was unclear, Second Sight agreed to provide further clarity on the nature of the enquiry, which they did in October 2014. Following some residual uncertainty over the focus and purpose of the request, Post Office sent a further written paper to Second Sight explaining the operation of its Suspense Account.
48. Whilst the Post Office acknowledges it originally took longer to respond to Second Sight's initial requests than it would have wished, it was able to answer Second Sight's questions when a shared understanding of the nature of the enquiry had been reached.
- 49.48. Post Office's Chief Financial Officer has now had two meetings with Second Sight to discuss these matters and has provided Second Sight with further 'contextual data'. At the most recent meeting, Second Sight agreed that it needed no further information on the Suspense Account, and Post Office has provided examples to reassure Second Sight that unmatched differences were not left for long periods in the underlying client accounts, thereby masking issues.

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50.49. It is also not the case, as stated in the Report, that, for most of the past five years, substantial credits have been made to Post Office's Profit and Loss Account as a result of unreconciled balances held by Post Office in its Suspense Account. Post Office compares its data with that of third parties in the normal way and the credits are not at all substantial in that context. Post Office considers that it has now provided Second Sight with adequate data and information to close down this line of their enquires and Second Sight has not suggested otherwise

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Post Office's response to section 3 – Risk Transfer

52. Section 3 of the Report broadly pulls together a number of strands elsewhere in the Report into an allegation that Post Office had improperly transferred 'risk' to Subpostmasters over time. Once the constituent elements of this claim are properly analysed, it becomes clear that either they are unsupported by evidence, or the underlying analysis is incorrect.
53. Second Sight premises this view on three limbs:
- a. The Subpostmaster Contract;
 - b. Changes in processes that make operating a branch more difficult for Subpostmasters; and
 - c. The error-repellency of Horizon.

The Subpostmaster Contract

54. Detailed comments on the Subpostmaster Contract are set out in section 7 of this reply. However, at paragraph 3.6 it is suggested that the Contract does not commit Post Office to support Subpostmasters in finding the source of losses in their branches.
55. First, under the terms of the Contract, Subpostmasters are only responsible for losses caused through their "*own negligence, carelessness or error*" or for losses caused by their assistants. Subpostmasters are therefore only liable for losses arising from those operations that are under their control and responsibility. As described in the overview above, Subpostmasters play a critical role in identifying the cause of losses and often Post Office, which is not in attendance in any branch, cannot know what has happened.
56. Second, and contrary to the suggestion in paragraph 3.7, support is available to Subpostmasters from the Post Office Helpline in relation to dealing with discrepancies. Further support is also available from the Post Office's Finance Service Centre (FSC), the Branch Support Team and the Field Based Training Team.
57. FSC could become aware of issues owing to:

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- a branch calling FSC directly or being referred to FSC via the Helpline;
- FSC identifying an anomaly in a branch from its accounting records; or
- a customer raising an enquiry to the Post Office about a transaction in a branch.

58. FSC works with a branch to try to identify the cause of any erroneous transaction. This may include speaking to the branch about how they have conducted the transaction, asking the branch to provide missing details, checking the paper records held at the branch against the transaction data on Horizon, liaising with clients (whether customer banks, utility companies, etc.) to gather different data streams on a transaction and contacting customers to obtain their consent to remedy errors.

59. The Branch Support Team and the Field Based Training Team assist branches when NBSC and/or FSC are unable to resolve the query or issue by way of a telephone discussion and on-site (in branch) support is required.

60. Post Office does provide considerable support to Subpostmasters.

Changes in operating practices

61. The second limb of Second Sight's argument is that Post Office has changed its practice in ways that make it more difficult for Subpostmasters to operate.

62. It should be noted that the Subpostmaster Contract provides that Post Office may only require Subpostmasters to offer new products and services where it is 'reasonable' to do so. The contention that the Subpostmaster Contract provides Post Office with a carte blanche to dictate to Subpostmasters is wrong.

63. In paragraph 3.10, the Report sets out five examples of changes to business processes that Post Office allegedly implemented without proper consultation and which transferred additional risk to Subpostmasters. In none of these examples has Second

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Sight properly explained how they result in a transfer of risk to Subpostmasters:

a. Phasing out of Third Party ATMs - Post Office presumes Second Sight's reference to 'Third Part ATMs' is to ATMs that are not provided under contract through Post Office. Prior to 2005/6, Post Office had contracts with a number of banks and ATM providers that allowed them to install ATMs in Post Office branches. In 2005/6 Post Office selected Bank of Ireland (BoI) as its preferred ATM provider. The other agreements were gradually phased out through:

i. a BoI ATM being installed to replace the existing ATM;
or

ii. where Post Office did not wish to install a BoI ATM, the existing provider could either remove their ATM or contract directly with the Subpostmaster.

Post Office does not understand how the change to having BoI as its preferred supplier of ATMs increased the level of risk to Subpostmasters.

b. Removal of paper paying in slips. As explained in more detail in Section 14, this change was initiated by the UK banking industry which, over the last 5-10 years, has removed paper paying in slips in place of customers making banking deposits using a chip and pin card. Post Office had no choice but to implement this change. In any event, the chip and pin system is more secure and less prone to error and, if anything, has de-risked this process for Subpostmasters.

c. Introduction of new products such as Lottery products and Foreign Currency services. No explanation is provided in the Report as to how these changes have transferred risk to Subpostmasters.

d. Removal of Suspense Accounts. This function was not removed but changed into the Settle Centrally and Dispute function described at paragraph 9.5 of the Part One Report. This allegation is therefore incorrect.

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e. Change from weekly to monthly balancing. No explanation has been provided as to how this change transferred risk to Subpostmasters, particularly given that it is, and always has been, open to Subpostmasters to balance their accounts on a weekly basis (or at any other time). The move to monthly balancing simply meant that the only compulsory balance that needed to be undertaken was at the end of the trading month.

64. These five examples therefore provide no support for the Report's conclusion in this section about risk transfer.

The error repellency of Post Office's business systems

65. The suggestion made at paragraph 3.11 that *"there is little incentive for Post Office to improve the error repellency of its business systems"* is incorrect. As recognised by Second Sight at paragraph 3.12, human error has been found to be the primary cause of cash and stock losses in the cases investigated. Such errors are not only detrimental to Subpostmasters but also to Post Office. For this reason, and the reasons described in more detail in section 22, Post Office does regularly improve its systems.

66. In paragraph 3.13, the Report sets out 7 examples of alleged inadequacy in Horizon's error repellency:

- a. Hardware and technology failure rate. The Report does not establish that hardware failures cause errors in branch accounts. Nor has any analysis of the failure rates in Horizon hardware been undertaken. There is therefore no evidence to suggest that the failure rate is excessive.
- b. Telecommunications equipment. The telecommunications line to a branch is, in large part, provided by the Subpostmaster. This is not part of the Horizon system.
- c. Limited testing. Second Sight has undertaken no analysis of the user experience testing undertaken by Post Office and therefore has no evidence on which to form the view that this testing was 'limited'.

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- d. Auto-calibration. Though the screen does not 'auto-calibrate' there is a screen calibration application which can be invoked at any time by the Subpostmaster from the Engineering menu of Horizon. If the screen is out of calibration then that would affect the whole screen and not individual icons so it would be obvious to the user that the screen had gone out of alignment. If this issue is noticed and a call made to the Helpdesk then the Subpostmaster or staff member would be asked by the agent to re-calibrate their screen to fix the issue.
- e. Software to prevent password sharing. If a User shares their user ID and password with another member of staff, this cannot be prevented by software as there would be nothing to suggest to the system that anything untoward was occurring. User ID and password sharing is a serious contravention of procedure and would need to be dealt with locally.
- f. Software to detect suspicious out of hours transactions. Subpostmaster can check for this as they have access to the dates and times of the transactions conducted in their branches.
- g. High value transaction controls. The Report does not explain what these controls may be. It is noted that this would typically mean some sort of escalation process to a higher grade member of staff for authority. However, Post Office has no control over the management structure offered in branch; this is a Subpostmaster's responsibility and so is the implementation of such controls.

Conclusion

67. As can be seen from the above paragraphs, none of the three limbs of the Report's arguments in this Section can be substantiated. Second Sight has not therefore demonstrated any unfair transfer of risk to Subpostmasters. Where errors occur in branch, a Subpostmaster is responsible for these as they are within their control.

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Post Office's response to section 4 - structure and content of the report

68. Section 4 of the report focuses on explaining Second Sight's approach to the Report, and correctly puts the 150 applications into the context of a network of over 11,500 branches and almost 500,000 users of the Horizon system since its introduction.
69. Post Office notes that in paragraph 4.6 the Report comments on the 'impact' on Subpostmasters, although Second Sight has not made any assessment of that impact by reference to any methodology, evidence and analysis. In those circumstances, it is difficult to see how the Report reaches this view. Further, this paragraph assumes that all Applicants have suffered problems with Horizon - for the reasons set out generally in this Reply, this is not correct.
70. Further, paragraph 4.9 implies Post Office did not, until recently and where possible, preserve documents related to cases in the Scheme which would otherwise be destroyed under Post Office's data retention period.
71. Although some cases are very old and fall outside the standard retention periods for keeping information, Post Office has gone to considerable lengths to search its records and provide as much evidence as possible. Thousands of pages of information have been identified, recovered and made available both to Applicants and Second Sight.

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Post Office's response to section 5 - Process

72. Section 5 of the Report sets out Second Sight's process behind preparing the Report. Although the concept of identifying thematic issues is sound, in practice the evidence has not supported the view that there are any thematic issues of universal application to multiple Applicants.

Lack of thematic issues

73. A number of sections in the Report do not identify what Second Sight term a 'thematic' issue which could be of general application to multiple Applicants as opposed to matters that fall to be addressed on a case by case basis. Where this arises, Post Office will address those issues in its individual case-specific Investigation Reports.

74. Of the 20 sections in the Report which focus on specific areas (sections 7-26), 12 sections do not identify a 'thematic' issue namely sections 9, 10, 11, 13, 15, 16, 17, 18, 19, 21, 23 and 24.

Absence of conclusions

75. The majority of the cases in the Scheme turn on there having been a loss in a branch for which an Applicant was held liable. For a 'thematic' issue to be of utility, it must help explain why a loss may have arisen or been attributed to an Applicant. The Report is largely silent on this critical issue, of the 5 sections that identify a thematic issue, 4 do not reach a conclusion, namely sections 8, 12, 14 and 25. A firm conclusion would have assisted Applicants and Post Office.

Outside scope

76. The scope of the Scheme is to consider matters "*concerning Horizon and any associated issues*". Matters such as the Subpostmaster contract and other legal matters are not within the scope of the Scheme and fall outside Second Sight's professional expertise.

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No substantiation

77. In a number of places, the Report suffers from a lack of supporting evidence, source documents, examples or statistics to substantiate the conclusions it draws. It does not describe the overarching methodology used to examine the weight of evidence from different sources - this is most important where the information provided by Applicants is purely anecdotal and has yet to be investigated and tested.
78. Second Sight has received information from the approximately 150 Applicants to the Scheme, whereas in total there have been almost 500,000 users of Horizon since its inception in 2001. The Report is therefore based on the tested views of only 0.03% of all Horizon users and cannot therefore be said to reflect general user experience.

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Post Office's response to section 6 - Scope

79. As described in section 1 of this reply, the purpose of Second Sight's engagement by the Post Office changed fundamentally following the establishment of the Scheme.
80. The scope of the Scheme is to consider matters "*concerning Horizon and any associated issues*". Matters such as the Subpostmaster contract and other legal matters are not within the scope of the Scheme and are outside Second Sight's professional expertise.

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Post Office's response to section 7 - The Contract between Post Office and Subpostmasters

81. Section 7 of the Report concerns the contract between Post Office and Subpostmasters dated September 1994 (as revised over the years) (**the Contract**). It considers (1) the potential impact of some of the terms and conditions and (2) issues relating to notification of the Contract terms to Subpostmasters.
82. An assessment of the Contract is outside the scope of the Scheme which was to consider "*Horizon and associated issues*". Second Sight has no mandate to consider the Contract and the Report contains a number of statements that are incorrect. Neither Second Sight Directors, nor, to the best of Post Office's knowledge, any of the people engaged by Second Sight to undertake work in relation to the Scheme, have either qualifications or expertise to comment on issues such as the Contract which can only be undertaken against legal principles. For this reason, no weight should be placed on this section of the Report as it reflects only Second Sight's lay opinion.
83. To help avoid potential confusion, Post Office sets out the correct position in respect of the Contract below.

Fairness of the Contract

84. Paragraph 7.7 concludes that "*from a business perspective*" the contractual provisions referred to above (in particular Section 12 requiring the Subpostmaster to make good losses) operate to the detriment of, and are unfair to, a Subpostmaster.
85. The Contract is a business to business arrangement. Save in a few very narrowly defined areas (which are not applicable here), there is no general principle at law of whether the Contract is 'fair' or not. In Post Office's experience, the terms of the Contract are broadly similar to those used in franchising arrangements across the UK.
86. In any event, Subpostmasters are agents and Post Office is their principal. At law, agents owe duties to their principals including the duty to act in good faith, to render accurate

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accounts and to make good any losses they cause. Section 12 of the Contract simply reflects these legal principles.

87. The Contract reflects the basis on which Post Office and thousands of Subpostmasters have successfully conducted business for decades, and it is neither commercially nor legally unfair. The Report alludes to 'duties' on Post Office that do not exist in the Contract. It is not now open to seek to retrospectively change the contractual foundation of the relationship between Post Office and Subpostmaster.

Subpostmasters' understanding of the Contract

88. The Report suggests that Subpostmasters may not have reviewed or fully understood the terms before entering the Contract. As a result, the Report states, at paragraph 7.11 that Subpostmasters are unable to mitigate 'risks' that they may face. Post Office disagrees with this conclusion. In addition, this conclusion is not supported by any evidence.
89. The Contract that is entered into between Post Office and Subpostmasters is done so freely and at arm's length. Ultimately, it is for the Subpostmasters to choose whether they enter into the Contract or not.
90. The Report provides no evidence that Subpostmasters do not understand the Contract. If the view being taken in the Report is from a business perspective (whether Post Office or a Subpostmaster) the provisions are very clear and written in plain English.
91. In any event, it is a well-established legal principle that a person who agrees to a contract is bound by its terms even if he does not have a copy of those terms, has not read them or does not understand them. Post Office cannot be responsible for a Subpostmaster who may not have taken the time to read the Contract.
92. The Report also notes that Post Office does not recommend that Subpostmasters take legal advice. There is no obligation on Post Office to make this recommendation. It is however open to any

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Subpostmaster to take legal advice on the Contract at any time. The reference to the BFA standards at paragraph 7.10 is not applicable here. The BFA recommendation is directed to franchisees (in a similar position to Subpostmasters). The BFA does not recommend that franchisors (in a similar position to Post Office) insist that legal advice be taken by franchisees. If anything, the BFA's advice supports Post Office view that responsibility lies with the Subpostmaster to understand their contract terms and Subpostmasters are free to seek and obtain advice if they so wish.

Notification to Subpostmasters of the Contract terms

93. Paragraphs 7.11 to 7.16 state that Post Office does not provide a copy of the Contract to Subpostmasters. This appears to be based on the fact that a Subpostmaster does not recall receiving the Contract or cannot now produce a copy. This does not mean that the Contract was not provided. Given the age of some of the cases in the Scheme, it is not surprising that recollections are hazy and that some records are now not available.
94. It is open to Subpostmasters to request a copy of the Contract throughout negotiations when seeking appointment and from Post Office's Human Resource Service Centre if they have misplaced or lost a copy. It is also Post Office's standard operating procedure to ensure that the Subpostmasters have a full copy of the Contract no later than the day that they commence their position.
95. Paragraph 7.14 highlights that it is common practice for new Subpostmasters to sign an 'Acknowledgement of Appointment' without a copy of the Contract. It is common practice that a separate document will be signed rather than the full Contract. As a point of law, terms and conditions can be incorporated into a contract by reference to another document that is not signed.

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Post Office's response to section 8 - Automated Teller Machines (ATMs)

96. Section 8 of the Report raises various issues concerning the accounting in branch for ATM transactions.
97. The Report does not clarify which precise part of the ATM accounting process is under consideration by Second Sight. In broad terms, the accounting process breaks down into three elements:
- a. Loading - cash for the ATM is sent to the branch by Post Office and is loaded by the Subpostmaster into the ATM. This requires the recording of the ATM cash as part of the branch's stock.
 - b. Cash dispensed - the amount of cash dispensed by an ATM is recorded daily on Horizon - see further below.
 - c. Exceptions - rejected cash and retracted cash - see further below.
98. From the content of the Report, Post Office believes that Second Sight has focused primarily on the processes for the recording of cash dispensed from the ATM, however other issues are also touched on. Despite Post Office highlighting this imprecision in its last version of this Reply, Second Sight has not identified the process at issue. This section of the Report therefore still lacks a coherent evidence base for its claims.
99. In short, nothing in this section of the Report gives rise to any issue that could cause a loss of cash in a branch. The Report does highlight a few areas where Applicants have claimed to struggle with accounting for ATM transactions, but the design of the accounting process and the safeguards put in place by Post Office mean that even a failure to account for ATM transactions will, save in a few minor areas (highlighted below), not cause a loss to a branch.

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Out of sync / air gap

100. The Report focuses on the situation where cash is dispensed from an ATM. The process for accounting for dispensed cash is set out at paragraph 5.27 of the Part One Briefing. In short, on a daily basis (or on a Monday following a weekend) the Subpostmaster prints a receipt from the ATM showing the amount of cash dispensed. This cash dispensed figure is then entered into Horizon by the Subpostmaster.
101. Simultaneously, the amount of cash dispensed is also automatically transmitted to BOI by the ATM. This means that there are two parallel records kept of the cash being dispensed by the ATM: one by the Subpostmaster on Horizon and one by BOI.
102. The Report notes that there are situations when these two systems can become 'out of sync' with one another, with one record showing more or less dispensed cash than the other record. This could be caused by the Subpostmaster entering the wrong figure on Horizon.
103. What is not highlighted by the Report is that even if the amount of money dispensed by an ATM as recorded on Horizon by the Subpostmaster is different from the amount actually dispensed as recorded by BOI, therefore resulting in the records being 'out of sync', this does not result in there being a loss to the branch. This is a pure accounting error by the branch.
104. There is a subsequent reconciliation of the Horizon figure against the BOI accounts. This means that any error on the Horizon account as to the amount of cash dispensed by the ATM would be picked up within a matter of days and corrected by way of a Transaction Correction to the branch.
105. As a result of this process, there is no difference in the amount of cash held on site. Indeed, these accounting processes do not require anything to be done with the physical cash at all.
106. Simply because the accounts may be 'out of sync' for a short period does not mean that there is a loss suffered by the

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branch. In summary, the air gap / out of sync issue cannot be a cause of loss in branch.

107. At paragraph 8.8, the Report suggests that these process is vulnerable to "*fraud and error*" but does not explain how either a fraudster could interfere with the process or how the process could generate errors. Post Office notes that no case in the Scheme has presented any evidence to support Second Sight's view. In any event, there are further safeguards in place to detect either of the above:

- a. First, on receipt of a Transaction Correction, a Subpostmaster should check whether the cash-dispensed figure input by them on Horizon matches the cash-dispensed figure on the ATM receipt that they will have retained in branch. This will eliminate any human error or fraud through the incorrect entry of figures into Horizon by branch staff.
- b. Secondly, there are two areas of assurance as regards the dispensed figures reported to Post Office which Post Office compares to those input by the branches. The dispensed figures are notified by LINK, not Bank of Ireland. They are part of the daily consolidation and reporting of dispensing between banks. They facilitate interbank settlements for the whole of the UK ATM network. LINK operates its reporting processes on a basis of scrutiny from all the banks. In addition, each bank would be checking the dispensed values for interbank settlement against the individual customer account updates for its own customers. Post Office is not party to these reconciliation processes in the banks, but takes assurance that they would be conducted with rigour across the banks.

108. The above steps also address the Report's criticism that Post Office does not investigate ATM-related discrepancies as clearly it does. Second Sight's misunderstanding in this regard may have arisen because no case in the Scheme gave rise to a need to verify the cash-dispensed figure as each case raising

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this issue was shown to have been caused by human error in branch (the cash dispensed figure not being correctly inputted into Horizon).

109. In paragraph 8.11, the Report says that Second Sight has seen 'examples' where the printed ATM-generated figures are false. There were two cases in the Scheme where an ATM produced an in branch report with an erroneous figure. This was not however the cash dispensed figure mentioned above and was attributable to the Subpostmaster making repeated mistakes in operating the ATM. Ultimately, however, this erroneous figure was immaterial and did not affect the branch's accounts.

Asserted complexity of accounting for dispensed cash

110. At paragraph 8.6 the Report states that the Post Office system for operating ATMs is *"a complex arrangement, requiring greater human intervention... than that typically needed in most high street banks"*. The Report does not specify which part of the branch accounting process is considered more complex, however given the focus on the 'out of sync' issues it seems that the Report is levying this allegation at the accounting process for dispensed cash (see above).
111. The Report's conclusion is not supported by any evidence and does not outline the differences in processes between Post Office and a bank save to say that banks' ATMs are fully computerised.
112. At various points, the Report suggests that Applicants also found it difficult to account for cash being dispensed from ATMs. Little evidence is presented to support this view.
113. As described above, the ATM automatically records the amount of cash dispensed. The only part of the process that is manual is the need for the Subpostmaster to take the cash dispensed figure from the ATM and enter it into Horizon. Second Sight has adopted the phrase 'Air Gap' for this manual interaction. As far as Post Office is aware, it is not a phrase used by any Applicant.

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114. Within this accounting process, no calculation or counting is required - it is literally typing a single figure into Horizon on a daily basis. Given the absence in the Report of any explanation or justification for the view that this is 'complex', Post Office does not accept that this process is 'complex'.
115. The Report appears to rely on a number of extracts from Post Office's Operations Manual to show that the above accounting method was too confusing for some Applicants. Paragraph 8.20 states that the 'out of sync' problem described above, was commonplace prior to February 2008. However, the Report sets out the opinion, at paragraph 8.22, that the new instructions in the Operations Manual released after February 2008 represent an example of the complex instructions and a cause of confusion. Paragraphs 8.20 and 8.22 are therefore a contradiction of one another - the first saying the problem pre-dated 2008, the other saying the problem resulted from the 2008 update.
116. The Report does not describe any instructions provided prior to the February 2008 Operations Manual or any subsequent updates. No assessment is made as to any change in the reporting of problems in relation to ATMs (and specifically in relation to misunderstanding of the instructions) before or after the February 2008 Manual update and in particular whether or not there was an increase or reduction in the potential for errors. This assessment and consideration has not been made in the Report. This omission, together with the fact that no evidence is provided to confirm how many Applicants did attribute errors to these (or any other) instructions, whether before or after February 2008, means there is no evidence to support the Report's view that the ATM accounting procedure was too complex.

ATM Support

117. The Report notes that Applicants have alleged that the Helpline repeatedly told them that in respect of the 'out of sync' error the "*problem would sort itself out*". It also states

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at paragraph 8.26 that the advice from the Helpline was inadequate and misleading. There is no evidence provided to support either allegation. The advice provided needs to be assessed on a case by case basis as there is no evidence that there is a wider issue with the advice provided. It has not been shown to be a 'thematic' issue.

118. Even if the advice provided was that an error would "*sort itself out*", in light of the reconciliation between Horizon and BOI (as described above) any 'out of sync' problem would be corrected by a Transaction Correction. This would prevent the build-up of any accounting shortfalls. As explained above, there is no loss caused to a branch by an 'out of sync' issue as the overall cash in branch relating to the ATM remains the same.

119. Overall, the assertion that the support provided was inadequate has not been supported by any evidence or logical reasoning.

120. In terms of the suggestion made at paragraph 8.27 that Subpostmasters were "*left to work out for themselves*" how to carry out the ATM related accounting on their branch Horizon system, this is incorrect.

121. On installation of an ATM, training on operating the ATM is provided by Wincor. When a Post Office branch which already has an ATM transfers to a new Subpostmaster, ATM training is provided by Post Office as part of its standard training package. Each branch is also provided with a Bank of Ireland ATM Operator Manual on how to use the ATM which includes descriptions of how to load cash into an ATM, how to obtain the ATM totals receipts and how to use the ATM's cash management menu.

122. Also, each branch is provided with "Accounting Instructions for Bank of Ireland ATMs" which explains how activity on an ATM should subsequently be recorded by the Subpostmaster on Horizon.

123. If this is not sufficient or issues emerge, additional support can be accessed via NBSC. If NBSC is unable to resolve

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the branch query/issue then further telephone support is provided by the Branch Support Team who will also assess whether additional on-site support and or training is required. If so, the Branch Support Team will arrange such support or training for the branch.

Weekend trading

124. Paragraph 8.25, which considers trading over weekends, appears to have no relevance to the explanation of losses alleged to stem from the ATM. Post Office is not aware of any specific issue with operating an ATM at weekends.

Power and telecommunication issues

125. Paragraph 8.29 of the Report states that many Applicants have commented on the impact of power and telecommunications failures on the ATM. The Report acknowledges that, even when they have dates of power or telecommunications failures, Applicants cannot clearly link them to specific deficiencies in their branches.
126. There is a standard recovery process in place to ensure that no data is lost or corrupted. This recovery process was reviewed in detail by Second Sight in their Interim Report and found to work. Post Office remains confident that branch accounts will not be corrupted due to power or telecommunications failures.
127. Despite this, the Report speculates that the need to reboot the ATM by either the Subpostmaster or BOI could "*introduce a possible risk of data loss or corruption*". This comment is not supported by any evidence either from a specific Applicant's case or general evidence that such a problem may exist.
128. Post Office therefore remains confident that data cannot be corrupted as suggested in the Report.

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Retracts

129. Paragraphs 8.32 to 8.36 discuss failed cash withdrawals. As paragraphs 8.33 and 8.34 state, if cash dispensed is not physically removed then after a period of time the cash will be retained by the ATM. This is known as a 'retract'. It can occur for a number of reasons but often because the customer gets distracted. It is also possible that retracts can be subject to fraud by customers. The Report indicates that Subpostmasters might be liable for losses caused by this fraud. This is correct where Subpostmasters have failed to account for retracts correctly. Provided the accounting is done correctly, a Subpostmaster will not be liable for any loss caused by retract fraud.
130. The accounting process for retracts is as follows:
- a. Each working day, a Subpostmaster must check the ATM Bank Totals receipt (which is generated by the ATM) to see if any retracted transactions have taken place. The receipt will show the number of retracts.
 - b. If any retracts have taken place, the Subpostmaster must physically remove the retracted notes from the ATM (which are stored in a separate part of the ATM from other cash).
 - c. For all retracted cash removed from an ATM, the Subpostmaster must count and report on Horizon the total value of retracted cash on the same day (using the ATM Surplus Cash button on Horizon). If a retract occurs when the Post Office branch is closed it should be removed and reported on the next working day.
 - d. Once reported on Horizon, the retracted cash should be placed in the branch safe and forms part of the cash holdings of the branch.
131. Customers' accounts will be debited even though they did not remove their cash. This is often re-credited but it is an issue for the customer and their bank, although Post Office will do what it can to assist both to resolve this issue. At this

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point, the branch accounts will balance as the amount of cash physically dispensed (including any cash subsequently retracted) will match the cash dispensed figure on Horizon and the amount of cash in the retract cassette will have been counted and added to the branch accounts.

132. Retract fraud occurs where a customer conducts a withdrawal transaction from their own bank account using an ATM. When the cash is vended, the customer looks to remove the middle notes, leaving the top and bottom notes behind, thereby hoping to trick the ATM into believing that the cash has not been taken. The ATM then retracts the remaining cash back into the machine, believing that it has retracted the entire sum withdrawn. The fraudulent customer's intention is that when the bank checks the retract records for the ATM in question, it sees that there was a retract recorded against the customer's withdrawal transaction and would then fully re-credit the customer's account.

133. Provided the Subpostmaster follows the correct procedure in relation to retracts, he will not be liable for any ATM cash loss caused by retract fraud.

134. Post Office provides to BOI details of the amount of each retracted cash transaction as part of its weekly ATM balances recorded on Horizon. BOI uses that information to look for a match between the actual amount of retracted cash removed from the ATM and the amount of the original cash withdrawal transaction. If there is a match, then this will indicate that there has been no retract fraud and the full amount will typically be re-credited to the customer. If there is a discrepancy, then BOI may undertake further investigations into the customer's activity.

135. As long as Post Office can provide the daily retract declarations from Horizon then any loss caused by any retract fraud does not fall on the Subpostmaster.

136. If a Subpostmaster does not declare an ATM balance through Horizon which includes the amount of any retracted cash, then Post Office cannot provide that information to BOI. As BOI has

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not been provided with balancing information it is unable to determine whether a retract was fraudulent. The full amount of the cash withdrawal re-credited to the customer is therefore charged on by BOI to Post Office.

137. Where Post Office is charged by BOI, it passes on this charge to the Subpostmaster by way of a Transaction Correction where the weekly ATM balance, including any retracted cash records, are not available because of the Subpostmaster's failure to follow proper accounting processes.
138. It should be noted that where the retract was not fraudulent, the correct amount of cash will have been retracted into the ATM. Even if the Subpostmaster has not properly accounted for this cash on Horizon, the retracted cash will still be in the branch (either in the branch's cash holdings or still in the ATM) as surplus cash. This surplus cash will offset any Transaction Correction for failing to follow proper accounting procedures.
139. Where retract fraud has occurred, then the amount of surplus cash recovered from the ATM will be less than the amount of the original cash withdrawal transaction. This discrepancy will fall on the Subpostmaster if they have not followed the proper accounting procedures.
140. The Report does not suggest there is any failure in the above procedure that may cause an unwarranted loss to a Subpostmaster. Post Office therefore remains confident that provided the above process is followed by a branch, a Subpostmaster will not be liable for loss caused by retract fraud. However, should they not follow the above process, then they may be liable for some or all of the cash lost to the fraud. Post Office considers that this allocation of responsibility for preventing retract fraud is fair and Subpostmasters can avoid all risk altogether by following simple accounting processes.

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Other frauds

141. Post Office accepts that there are other forms of fraud that may be occurring. However, it is not aware of any form of fraud (including retract fraud) that creates a loss to Subpostmasters, provided they follow the correct accounting procedures.
142. Other than speculation about unspecified issues that may have affected other ATMs, the Report presents no evidence that a branch has suffered a loss due to fraud where all the accounting processes had been followed correctly. The absence of a single example of third party fraud reinforces Post Office's view that this is not an issue that causes loss to Subpostmasters.

Conclusion

143. Overall, provided a Subpostmaster follows the appropriate procedures they will not be liable for any ATM loss due to an 'out of sync' problem or retract fraud. Post Office does not agree that the instructions and support in relation to ATMs are inadequate. No evidence is provided to support this position nor do the large number of ATMs across the Post Office network that are operated without concern appear to have been considered. This would support the position that the operating practices for ATMs are clear, understood and work in practice.

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Post Office's response to section 9 - Motor Vehicle Licences

144. Section 9 of the Report considers the issuing of Motor Vehicle Licences (**MVL**). The Report itself notes that only a small number of Applicants reported problems concerning processing MVLs. It is not, therefore, clear that this can be considered a system-wide issue of general application.
145. Paragraph 9.1 describes a problem encountered (by what Post Office believes to be a single Applicant) when form V11C (the form used by customers to renew their MVL tax discs) was misprinted with the incorrect barcode. Form V11C is not produced by Post Office but by the DVLA and therefore this was an external error.
146. If there is an error with a barcode, the issue raised will relate to the tax banding. This issue could benefit or disadvantage a customer. However, Horizon would invite payment at the level requested by the barcode. Provided that payment was taken for the amount requested by Horizon the branch would not suffer a loss as there is no loss or gain from the transaction from the branch's and Post Office's perspective. Whilst this issue is clearly not desirable (and Post Office would offer all possible assistance to the customer to correct any error on the DVLA issued V11C form), this issue does not impact on branch accounting.
147. This appears to be a one off incident, created by a barcode that was created by a third party, the DVLA. As this issue is so specific to a particular Applicant's circumstances, Post Office cannot see how this can be classed as a thematic issue affecting Applicants generally.

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Post Office's response to section 10 - Foreign Currency Transactions

148. Section 10 of the Report discusses, and makes a number of assertions about Post Office's "*system for transacting foreign currency transactions*". The conclusions made at 10.2 that the accounting processes for foreign exchange transactions were "*fundamentally flawed*" and at 10.10 "*deeply flawed and dysfunctional*" are rejected by Post Office.
149. The allegations are made in relation to the Forde Money Changer (FMC) Machine which ceased operation in circa 2004. As far as Post Office is aware, of the 21 Applicants that have referred to issues encountered with Foreign Currency transactions, only one relates to a time period when the transactions would have taken place on the FMC machine. Clearly therefore, this is not what could be termed a 'thematic' issue, but rather, the issues discussed turned on the individual circumstances of that case. It cannot therefore justify the assertions referred to in the above paragraph. We note that at paragraph 10.10 of their Report Second Sight admit "...we have yet to complete our investigative work on that case..."
150. Nonetheless, the actions taken by the Subpostmaster in question, namely failing to adhere to standard operating procedures and Money Laundering legislation, did not affect branch accounts - they left Post Office at risk of loss of revenue.

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Post Office's response to section 11 - National Lottery

151. Section 11 concerns National Lottery transactions which are described in more detail at paragraph 5.35 of the Part One Briefing. In particular, the Report highlights alleged problems that Subpostmasters may have in relation to (1) scratchcards and their activation and (2) sales continuing outside of Post Office hours of Lottery products in a connected retail shop resulting on the Horizon and Camelot terminals being 'out of sync'.

Activation of Scratchcards

152. Paragraph 11.4 states, correctly, that before February 2012 any Lottery scratchcards received by a branch had to be manually 'activated' on Camelot terminal and then remmed in to Horizon. This process is described in more detail at paragraph 5.42 of the Part One Briefing.
153. Paragraph 11.3 of the Report describes how a branch could become 'out of sync'. This means that the activation of scratchcards on the Camelot terminal did not reflect those remmed in on Horizon. This would result in either a surplus or a deficiency of scratchcard stock in the branch accounts. To remedy this error, Post Office and Camelot conducted daily reconciliations of the data on the Camelot terminal and on Horizon. Where there was a discrepancy, a Transaction Correction would be issued to the branch.
154. Any errors that occurred through the failure to activate or rem in scratchcards were errors that occurred in branch due to a failure by a Subpostmaster to follow the correct procedure.
155. However, the effect of not remitting in scratchcards into Horizon will not in itself create a loss. The physical scratchcard stock will still be in the branch as it must have been delivered to the branch for it to be activated on the Lottery terminal. The Transaction Correction only increases the amount of scratchcards shown in the branch accounts to reflect the amount actually on hand.

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156. If the scratchcards have been sold but not remmed into Horizon, the branch would show a negative stock value for scratchcards (as each sale reduces the stock line in the accounts even if this goes below zero). The subsequent Transaction Correction will therefore increase the scratchcard holdings, cancelling out the negative figure and bringing the accounts back into balance.
157. The opposite effect will happen if scratchcards have not been activated on the Lottery terminal but remmed into Horizon.
158. In summary, it is clear that this issue is caused by errors in branch for which Subpostmasters are responsible but that in any event this issue cannot be a source of actual losses.

Support

159. At paragraph 11.8 the Report states that the problems encountered by the Applicants (prior to procedural improvements described at paragraph 5.43 of the Part One Briefing) were exacerbated by the Helpline which was not able to offer assistance. Post Office is not aware of the specific calls or incidents that the Report is referring to which are alleged to demonstrate a thematic failure to provide adequate advice.
160. This is an issue that will need to be considered on a case by case basis depending on the advice provided to an individual Applicant in a specific instance. However, as noted above, the reconciliation process conducted by Post Office means that any error would be corrected in due course.

Out of hours sales

161. Paragraph 11.2 of the Report describes an alleged problem relating to the synchronising of sales that take place outside the hours when the Horizon system is operating at the Post Office counter. Sales of Lottery products (as described at paragraph 5.39 of the Part One Briefing) may continue while a connected retail shop is open but the Post Office counter is closed. However, the branch needs to ensure that any cash taken

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for any 'out of hours' sales is transferred from the retail shop to the branch cash holdings the following day.

162. The value of the 'out of hours' sales (and any other sales) will be automatically sent to Horizon each day by way of a Transaction Acknowledgement which will increase the cash position in the branch's accounts. The amount of cash to be transferred from the retail side to the Post Office side is easily identified as the figure is displayed on the Transaction Acknowledgement. If a Subpostmaster does not transfer the physical cash from the retail side into the branch for these sales, this will produce a cash shortage in the branch's accounts. The Subpostmaster will be liable for this cash shortage at the end of the trading period.

163. Paragraph 11.9 of the Report highlights an alleged 'complication' occurring on the final Wednesday evening of the monthly trading period for those branches operating Lottery terminals. This is a reference to the trading period reconciliation completed on a monthly basis. Rather than process the reconciliation on a Wednesday evening as they would normally do, Subpostmasters with Lottery terminals have first to accept the Transaction Acknowledgement sent overnight and complete the reconciliation as a matter of priority the following morning. The Report states that advice on this process was not always provided by the Helpline.

164. Post Office has not seen any evidence to support this assertion and has provided Second Sight with call logs relating to individual Applicants' cases. However, no specific calls are referenced to support this statement.

165. In fact, branches operating a Lottery Terminal needed to make daily cash declarations (see paragraph 8.2 of the Part One Briefing) like all other branches. As Lottery sales data is sent overnight, Lottery branches are instructed to conduct their cash declarations and end of trading period balances (see paragraph 7.45 of the Part One Briefing) first thing in the morning after the Lottery data was received. This was not therefore a

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complication but an adjusted daily process for branches with Lottery terminals.

166. In practice, some branches chose not to follow 'next day' guidance and may have conducted balances several days later. However, Post Office operational instructions have always provided for next day accounting.

167. In summary, any loss arising from 'out of hours' issues highlighted in the Report will arise as a result of an error in the branch (for which a Subpostmaster is liable).

Conclusion

168. Procedures have evolved to assist Subpostmasters and reduce the number of Transaction Corrections that are necessary in relation to scratchcards, especially in relation to their activation. However, the 'out of sync' effect created by either incorrect activation or non-activation of scratchcards, or not correctly recording the out of hours' sales, are errors that arise within a branch. It is recognised that this error by branch staff can, in extreme cases, lead to a high number of Transaction Corrections being issued to a branch which, in turn, can cause confusion. However, this is easily resolved by running a separate Lottery stock unit so that Lottery issues do not affect general branch accounting. In any event, the errors were not due to either Post Office or Horizon, and therefore any liability appropriately remains with the Subpostmaster if it arises.

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Post Office's response to section 12 - Training, Support and Supervision

169. Section 12 principally considers the training on Horizon and branch accounting provided to Subpostmasters by Post Office. Currently, training for Subpostmasters consists of a mixture of classroom training and in-branch training. Further training is available upon request and there is a well-developed support network including the NBSC, managerial support and Field Support Advisors. This training and support is described in more detail at section 4 of the Part One Briefing.
170. Paragraph 12.2 of the Report comments that the training was adequate in relation to 'Business as usual' transaction processing but was weak in relation to the end of day, end of week and end of trading period balancing. In addition, the Report states that there was no consideration given to dealing with discrepancies, how to identify the root causes of problems and how to deal with Transaction Corrections.
171. These views appear to be based entirely on the anecdotal information provided by Applicants in their CQRs. As noted in the introduction to this Reply, these assertions remain largely untested. Post Office has not been asked to provide any training materials for review nor has the Report established any industry standard or contractual benchmark against which to judge Post Office's performance. The limited analysis used to support the Report's conclusion is considered below and shown to be incorrect.
172. Given that the Report has presented no evidence or analysis that shows that Post Office's standard training is defective, Post Office stands by its training practices as being appropriate and effective. Post Office considers that the training and support that is provided is fit for purpose and adequate to meet the needs of Subpostmasters. This is proven by the thousands of Subpostmasters who are successfully operating Horizon daily, having received the training from Post Office.

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173. There may of course be specific cases where training and support has not been provided to Post Office's usual standards (which is not impossible given the thousands of Subpostmasters trained and supported by Post Office over the years) but these situations will be considered on a case by case basis and are not reflective of any general thematic issue.

Move to Horizon

174. At paragraphs 12.3 and 12.4, the Report finds that many Applicants found that discrepancies began to occur when they moved to Horizon. The conclusion reached in the Report is that this was due to a lack of understanding of how the system was due to operate and be used, meaning they were insufficiently trained, had not been able to train their staff properly or there were issues with the new screen-based processes.
175. Post Office does not agree with this conclusion and it appears to be unsupported by any evidence that fewer mistakes were made prior to the introduction of Horizon. Transaction records are not available for the pre-Horizon period and it is not possible to test the conclusion which is put forward. It therefore appears that the Report has accepted Applicants' anecdotal recollections of events without testing these for any corroborating evidence..

ATMs, Lottery transactions, MVL foreign currency or other specialist products

176. At paragraph 12.6 the Report highlights that Applicants considered that the Post Office trainers and line managers were weak in relation to dealing with ATMs; Lottery transactions; Motor Vehicle Licences; Foreign Currency and other products.
177. There is a lack of evidence to support these alleged comments from Applicants. Due to document retention policies, training records for a number of Applicants are no longer available. There also appears to be no contemporaneous evidence that Applicants were not provided with adequate support by trainers or line managers whether in relation to ATMs, Lottery

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transactions, MVL, foreign currency or other specialist products. If there was a lack of understanding in relation to these aspects, Post Office would expect the Subpostmasters to request further training or otherwise seek assistance through NBSC.

Training Needs Analysis

178. Training support is provided through various means including the NBSC and managerial support. In addition, training materials are provided on a regular basis and further training can be requested by Subpostmasters.
179. The report, at paragraphs 12.7 and 12.8 suggests that it is ineffective to rely on Subpostmasters to identify on-going training needs in their branches and that further training was delivered in accordance with user demand rather than being determined by a Training Needs Analysis. There are a number of factors that can affect a branch's performance and the need for training e.g. changes in an Applicant's assistants, changes in the way a Subpostmaster may operate his/her business, seasonal pressures, changes to the connected retail business etc. None of these factors will be known to Post Office but they will all be known to the Subpostmaster. Post Office therefore considers that it is most effective for each Subpostmaster to be tasked with seeking further training rather than it being proposed by Post Office.
180. Nonetheless, when Subpostmasters complete their training there are follow up reviews at one, three and six monthly intervals. In addition to confirming that the business is operating as it should be, there is an analysis of the Subpostmasters' understanding. If there are any gaps, these are highlighted and further training can be provided. After this stage, there is a reasonable assumption that the Subpostmaster will be reasonably competent, with the support network highlighted above, to operate Horizon. Subpostmasters are operating a commercial business and can request additional assistance and training when required.

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Training assistants

181. As is made clear within the Contract (at section 15, paragraph 7) it is a Subpostmaster's responsibility to train his/her staff. Nevertheless, the Report criticises Post Office at paragraph 12.7 for not operating a 'quality control function' to ensure that branch staff are properly trained by Subpostmasters.
182. The Report seeks to impose on Post Office a responsibility which it does not have under the Contract or generally.
183. Any failure by a Subpostmaster to train their staff adequately could be the reason for the losses or increase in discrepancies. However, any resulting losses would be due to the Subpostmaster's error and he would be liable for them (under section 12, clause 12 of the Contract).
184. In any event, Post Office could not operate the quality control function proposed by the Report. Each Subpostmaster, as an independent business person, is free to employ whoever they wish (subject to registering them with Post Office) as assistants and to give their employees whatever tasks they wish.
185. Furthermore, Post Office cannot monitor the performance of individual assistants it does not engage or employ; only Subpostmasters can do this.
186. Post Office agrees that a 'quality control function' should be applied to assistants. However, this should be undertaken by Subpostmasters and not Post Office. Indeed, in a number of cases, losses appear to have stemmed from Applicants' failures to exercise any 'quality controls' over the actions of their staff.

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Post Office's response to section 13 – The Helpline

187. Section 13 concerns the assistance provided by the Helpline to the Applicants. Post Office operates a number of helplines including the Horizon Help Desk and Finance Services Centre. It is presumed that the Report is referring to the NBSC. More detail on the Helpline can be found at paragraph 4.2 of the Part One Briefing.

188. The following criticisms of the Helpline are made in the Report:

- a. Difficulty contacting the Helpline due to limited availability;
- b. Unhelpful, script based responses;
- c. Many calls were afforded "low priority", including those relating to balancing problems and discrepancies; and
- d. Contradictory advice that revokes previous advice.

189. This section of the Report repeats the assertions made by Applicants. Those allegations appear untested and the Report reaches no conclusion save to say that "*many of the shortfalls were, on the balance of probabilities, attributable to errors made at the counter*" and whilst it may not be what Applicants expected, "*... Post Office's Chesterfield-based Helpline staff cannot be expected to determine from afar how every discrepancy has arisen in every branch...*". On this basis, Post Office cannot understand how this topic is considered a thematic issue. Nevertheless, the allegations presented in the Report are addressed below.

Difficulty contacting the Helpline due to limited availability

190. Post Office has previously acknowledged that as changes were made to standard operating practices over the years there have been periods where the Helpline could be difficult to contact. Changes were made, especially at the end of trading

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periods, and the hours for which the Helpline was available were extended.

191. Currently the opening times for the Helpline are from 06:00 to 23:00 on Monday to Saturday and 07:00 to 17:00 on Sunday and Bank Holidays. Post Office monitors the number of calls made to the Helpline.

192. Statistics available for the period from April 2014 to February 2015 show that:

Calls made: 546,127

Calls Answered: 485,841 (89%)

Average waiting time until answer: 87 seconds

Calls abandoned: 11%

193. As can be seen from the above calls the average waiting time was just 87 seconds and 89% of all calls made to the Helpline were answered. Of the abandoned calls, this will include all abandoned calls and therefore will not solely be callers who have decided to abandon their call because they cannot get through to the Helpline (for example they may have resolved the issue themselves).

Unhelpful, script based responses

194. The Helpline does not use scripts. The operators, many of whom are very experienced with Horizon, listen to the query and then, using 'categorisations' in Remedy (the contact management system) the Post Office Knowledge Base is accessed, where there are articles relating to that category of call. The operator then selects the relevant article according to the issue raised by the caller and relays the information to them. If the Knowledge Base does not provide the relevant information there is a second tier of advisors to which the enquiry can be escalated.

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Many calls were afforded "Low Priority"

195. There is no priority system in place for calls to the Helpline with the exception of matters relating to robbery or burglary. Whilst those calls are dealt with as a priority, other calls are answered and dealt with in the order they are received.

196. In addition, if the Subpostmaster is not satisfied by the advice provided they can seek a higher level of support as described at paragraph 4.6 of the Part One Briefing.

Alleged contradictory advice

197. No evidence is presented in the Report to support the view that contradictory advice has been given by the Helpline.

General

198. All calls to the Helpline are recorded by the Helpline operators in the NBSC call logs. The logs describe briefly the nature of the question and the answer given, if appropriate. The Report states that there is insufficient evidence within the call logs that have been provided to them to conclude what advice was provided. However, Post Office considers that if calls were not being answered or addressed appropriately then either the matters would be escalated (which would be noted) or there would be repeated calls about the issue that the Subpostmaster was facing. There would be evidence that the advice had not resolved the problem or the Applicant was not happy with the advice. The absence of such evidence suggests that the calls had generally been resolved satisfactorily whilst accepting that there may have been individual calls where an Applicant was not content with the advice provided.

199. At paragraph 13.2, the Report states that a frequent comment by the Helpline was that matters would resolve themselves. It is likely that this was reference by the Helpline to a Transaction Correction potentially being generated

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following a surplus or deficiency and that would resolve the issue.

200. Through its own investigations, Post Office has found no evidence to support the allegations that the Helpline would often merely comment that matters would resolve themselves or be dismissive of any enquiry. In addition to the initial advice from the Helpline, if matters could not be resolved they could be escalated to a higher level of support. Support could have been provided by Field Support Advisors or other managerial support if it had been requested. Post Office is not aware of any wider systemic problems where this support was not being provided.

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Post Office's response to section 14 - Limitations in the Transactional "Audit Trail"

200. Section 14 of the Report considers what it generically refers to as 'limitations in audit trails'. The Report is concerned that Subpostmasters are not able to investigate the root cause of errors (even where they admit it is caused by their own, or an in-branch, error) due to a lack of access to necessary transaction data.
201. The Report considers three situations:
- a. Data that is not available on the day of the transaction under investigation;
 - b. Data that is available but after 42 / 60 days is no longer available; and
 - c. Data that is not available after suspension.
202. In general, Post Office considers this section is premised on a misunderstanding of the nature of the information needed by branches to investigate losses.
203. If, at the end of a day, a branch produces a cash declaration that shows a discrepancy, then the branch will have access to a range of reports on different products and transactions to investigate the possible causes for the discrepancy (including a complete line by line listing of all transactions that day). This also applies at the end of the trading period as a trading period is either 4 or 5 weeks (28 or 35 days) and the above reports and data have always been available in branch for a minimum of 42 days.
204. If a Transaction Correction is sent to the branch, the information needed to verify the Correction will not be the Horizon data (Post Office has this data and takes this into account when generating the Transaction Correction). The information is likely to be in the paper records held at the branch.

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Data that is not available even from the day of transaction

205. Paragraphs 14.4 to 14.8 of the Report raise the issue that some information is not available to Subpostmasters even on the day that a transaction takes place. The example provided in the Report is where an aggregate amount or volume is provided for Debit or Credit Card transactions. An aggregate amount for the number of transactions was provided at the end of each day rather than a breakdown of the individual transactions. As a result, the Report states that Subpostmasters are not able to identify the individual transaction that may have caused a balancing error. The Report considers that this would prevent a Subpostmaster from mitigating their loss or remedying the error by contacting the customer. This position was allegedly different prior to the introduction of Horizon when paper records were kept and could be reviewed.

206. Post Office does not understand this line of enquiry. Debit and credit card information has never been retained on Horizon in branch - indeed doing so would be a breach of Payment Card Industry standards (and Horizon is PCI accredited). However, as mentioned above, branches have always had access to line by line transaction data each day and this data records the method of payment (e.g. cash, cheque or card).

Data that is available but after 42 days is no longer available (this was extended to 60 days)

207. On the original Horizon system, line by line transaction data was available in branch for 42 days after a transaction occurred. On Horizon Online (since 2010), this data is available for 60 days.

208. The Report considers that with data only being available for a limited period of time, it may not be available to support a challenge by a Subpostmaster to a Transaction Correction that may be issued after the date that data can be retrieved (ie. beyond 42 or 60 days). The Report states that this restricts Subpostmasters' ability to challenge Transaction Corrections.

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209. What the Report does not take into consideration is that Subpostmasters may challenge a Transaction Correction without transaction data. Transaction Corrections are also often preceded by an enquiry and so even if the Transaction Correction is beyond 42/60 days then an enquiry may well have been received within the period enabling the matter to be investigated within the 42/60 day period. There is a wide range of evidence that can be provided to review or challenge a Transaction Correction. Often it is very product-specific and not a general view across all data entries. Typically, the necessary data is kept in branch records rather than on Horizon. These documents should be retained beyond the period that data is available through Horizon and is used by Subpostmasters to challenge or review a Transaction Correction.

210. For example, if a branch wishes to contest a Transaction Correction relating to ATM transactions (see section 8 above), the information needed is on the paper "Totals Receipt" printed daily by the ATM which shows how much cash has been dispensed by the ATM and other important information. This receipt must be retained in branch. No access to Horizon data is needed as all the necessary information is on the "Totals Receipt".

211. The general proposition in the Report that Horizon data needs to be available for more than 42 or 60 days is incorrect. Any challenge to a Transaction Correction, and the data needed to make that challenge, must be considered on a product by product basis. Post Office is prepared to investigate any product-specific allegation that there is insufficient data or information available to Subpostmasters to challenge and review Transaction Corrections. It is confident that it will be able to show that sufficient information is available to Subpostmasters.

Data that is not available after suspension

212. Paragraph 14.15 of the Report highlights that some Applicants were, following their suspension, refused access to data and their own records that may have been seized upon audit.

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As a result they say that they were unable to defend themselves from any claim made by Post Office for the recovery of monies.

213. Whilst Post Office is aware that some Applicants have raised the issue that their own records were removed and not returned to them, there is no evidence produced or referenced by the Report to support the position that this has prejudiced an Applicant in any way.

214. As to other branch records, these are the property of Post Office. In the event of a Subpostmaster being suspended, Post Office may take away some branch records for investigation.

Giro Transactions

215. A connected issue that is considered at paragraph 21.4 of the Report is the process relating to Giro Transactions (under the heading 'other counter-errors that benefit customers at the expense of the Subpostmaster'). Giro Transactions are, in essence, deposits of cash into a customer's bank account. Previously, this involved a two-part paying in slip with one copy retained by the customer and the other accepted by the branch and then despatched to the processing bank (Santander) with the last Royal Mail collection of the day. At the end of the day, the branch copy could be cross-referenced to the entry made on Horizon to check for any errors by the branch in keying in the wrong figure into Horizon. This process changed to a chip and pin system using a swipe card at the request of the processing bank (Santander) that ran the Giro banking service. Following the change, no deposit slip would be presented by the customer.

216. The Report states that due to the change in this process there is nothing to allow the Subpostmaster to check whether or not the cash deposit entries on Horizon reflected the amount of cash deposited and this increases the risk to Subpostmasters. This is incorrect.

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217. In terms of the accuracy of the accounting entries for the deposit, historically, with paying-in slips, there was a risk that the deposit value on Horizon (as manually keyed in) and the actual amount deposited to the customer's account (as per the paying in slip) could differ and generate a discrepancy. Hence the need for the end of day cross-check. Under the chip and pin system, there is less likely be an accounting error as the amount entered into Horizon by the Subpostmaster is confirmed on the chip and pin pad by the customer. Therefore the amount deposited to the customer's account is always the same as the amount on Horizon. The move to chip and pin has therefore eliminated the risk of an accounting discrepancy.
218. However, if a branch takes more or less cash than the recorded value of the deposit, then that is a cash handling error for which the branch is responsible. Even with a paying-in slip, there was no guarantee that the amount of physical cash handed over by a customer was accurate. The paying-in slip only evidences what the customer intends to deposit (assuming it is completed correctly); it does not evidence the amount of physical cash handed over (which could still have been mistakenly counted). The only check that can be conducted to ensure the correct amount of physical cash is taken from a customer is a manual cash count at the point of the transaction. This manual cash count is needed whether the deposit is by paying in slip or chip and pin card. Any discrepancy arising from a cash counting error therefore lies solely on the branch.
219. This is the same process used by all high street banks which have also moved away from paying in slips to card based deposits.

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**Post Office's response to section 15 - Transactions not entered by
Subpostmaster or their Staff**

220. Section 15 of the Report considers, at paragraphs 15.1-15.3 transactions that have not been entered by the Subpostmaster or their staff such as where there is an 'automated transactional reversal'. This appears to be the same underlying issue as raised in section 16 - see that section for Post Office's reply.

221. Paragraphs 15.4 and 15.5 allege that there may be a facility in Bracknell where Post Office can edit transactions without the knowledge of Subpostmasters. This is denied in the strongest possible terms. The Subpostmaster who apparently witnessed this was a member of the NFSP and was on an escorted visit of a Fujitsu site. He saw a room with Horizon terminals but these were test terminals, not connected to the main Horizon network. What he saw was the manipulation of test data in a test environment. This then appears to have been confused with what can, or in fact cannot happen. Post Office has provided Second Sight with a witness statement from the senior member of staff who escorted the Subpostmaster on the visit, who has confirmed the above.

222. For clarity, neither Post Office nor Fujitsu can edit the transactions as recorded by branches. Very robust safeguards are in place to ensure the integrity of the data sent by branch terminals to the Post Office data centre - these are set out in detail at section 22 below. Although some Applicants have suggested that they have seen mysterious transactions that they cannot explain, multiple explanations have been found to show how these transactions can, in fact, straightforwardly be explained (e.g. a miskeying error, attached to the wrong stock unit, logged in using someone else's ID, etc.).

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Post Office's response to section 16 - Transaction Reversals

223. Section 16 of the Report considers the issue of Transaction Reversals.
224. Transaction Reversals are where part of a basket of transactions is reversed because the basket is interrupted before completion (typically due to a power or communication failure).
225. The Report states that when a Transaction Reversal happens, Horizon records the reversal against the user ID of the Subpostmaster or a member of staff. The Report states that this is misleading because the reversal is 'automatic'. This interpretation is incorrect.
226. As far as Post Office is aware, this issue has only been raised as part of a Spot Review conducted by Second Sight whilst preparing its Interim Report. The Subpostmaster who raised the issue which was subject of the Spot Review has decided not to make an Application to the Scheme and no other Applicant has raised this issue.
227. As detailed in Post Office's response to the Spot Review (full details of which are confidential in order to protect the privacy of the Subpostmaster whom it concerned), the reversals were caused by the Subpostmaster cancelling a number of transactions that they were conducting for a customer. The user's System ID is shown as the person making the reversal because they initiated the reversal process.
228. The extracts taken from the report by Helen Rose (as quoted at paragraph 16.3) is taken out of context. The report was addressing concerns that reversals were not being clearly shown on the particular data being reviewed (i.e. the ARQ and credence data being the main transaction data used by Post Office). However, this data is available on other records that can be extracted from Horizon. The report makes clear that this is not an issue with Horizon itself or its data but the way that the

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data it produced was presented within one particular data log. It does not suggest that there was any entry being made that was not initiated within the branch by the Subpostmaster or their staff.

229. This section raises no issue that could be the cause of losses in a branch.

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**Post Office's response to section 17 – Cash and Stock Remittances
(Rems) in and out of the branch**

230. Section 17 of the Report focuses on the remittance of cash and stock to and from branches. Paragraphs 7.16 to 7.29 of the Part One Briefing describe the remittance process.
231. On occasion, issues can arise such as cash pouches not being received or there being less or more cash within the pouch than stated. This will result in a Transaction Correction being raised.
232. If the cash centre remits a cash pouch to a branch and it is not received this will not result in a loss to the branch. The cash centre will investigate why the pouch has not arrived and ultimately bear the loss. The cash pouch is scanned upon receipt by the branch and therefore it is only at this stage that the cash is registered on Horizon as being held in branch. From this point, any loss of cash is the responsibility of the branch and the Subpostmaster. There may be some occasions when the pouch barcode will not scan. In such circumstances the pouch is entered as received manually by keying in the barcode number.
233. If there is more cash within the pouch than stated, the branch should report this within 24 hours of receipt. This will result in a surplus to the branch and a Transaction Correction is issued to correct the balance on Horizon.
234. In circumstances where the pouch contains less cash than expected, the matter should be reported by the Subpostmaster within 24 hours of receipt. The issue is investigated by the Post Office cash centre. If the cash centre accepts that the pouch contains less cash due to their error, they will bear the loss (if any). A Transaction Correction is issued to the branch to correct the balance on Horizon.
235. Where the cash centre does not accept that it is their error, the Subpostmaster is invited to review the security cameras that monitor the loading of cash into the pouch at the

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cash centre. If the Subpostmaster wishes to continue to challenge the amount received they can do so through the FSC in the same way that a Transaction Correction is challenged. If less cash is held on Horizon, a Transaction Correction would be issued. The loss can be placed in the Suspense Account whilst the matter is investigated and resolved.

236. A similar process is applied when cash is remitted to the cash centre from the branch. The amount of cash sent within the pouch is recorded. If this sum is more or less than anticipated when received by the cash centre the issue is investigated. The Subpostmaster has the opportunity to view security cameras that monitor the movement of the pouch and can choose to accept the shortfall/surplus or place the loss/gain into the Suspense Account and investigate the matter further.

237. Paragraph 17.4 deals specifically with the instances where foreign currency has been accidentally sent to the wrong branch. The Report speculates that this could result in a Subpostmaster being responsible for a delivery that was never received.

238. The same process outlined above applies to foreign currency. If a pouch is not received by a branch it will not be scanned into Horizon and there will be no increase in cash holdings. If the pouch is not received there is no loss to the branch.

239. Where the pouch is taken to a different branch in error it can be rejected and will be returned to the cash centre. If an alternative branch accepts the pouch it will be scanned into Horizon and increase the foreign currency held at that branch. Transaction Corrections will be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

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Post Office's response to section 18 - Missing Cheques

240. Section 18 of the Report discusses the process of remitting cheques from Post Office branches to Post Office's cheque processing provider. It considers the situations where cheques go missing and do not reach the cheque processor, or cannot be processed by the customer's bank.
241. To assist Applicants, Post Office has set out below the cheque remittance process and the process followed when cheques go missing or bounce.
242. In summary, it is inevitable that cheques will occasionally go missing at some stage in their processing. However, as stated in paragraph 18.9, provided that the Subpostmaster follows the correct procedure for processing the cheques in branch, this will not result in a loss. The cost of a lost or bounced cheque is only passed to a Subpostmaster where there is clear evidence that the Subpostmaster has failed to follow proper acceptance or remittance processes and Post Office has exhausted all other possibilities of recovering the missing cheque. This is done in accordance with clause 12, section 12 of the Contract under which the Subpostmaster is liable for any losses caused by carelessness, negligence or error.

Process in branch

243. Most Post Office branches are entitled to accept cheques from customers as the method of payment for a range of designated transactions. The cheque should be scrutinised by branch staff to make sure it is not a forgery and the reverse of the cheque needs to be date stamped, initialled and the relevant transaction details recorded. This will enable identification of the specific product and/or customer in the event of an error. There may be no customer details recorded on Horizon against the cheque transaction, hence the need to endorse the cheque with those details.

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244. The method of payment (MOP) by way of cheque should be recorded on Horizon. When recording a MOP as by cheque, the customer's cheque is automatically recorded on Horizon as a part of the branch stock.
245. All cheques taken should be despatched from the branch via the final Royal Mail collection of the day (except Fridays). The branch process for remitting cheques is as follows:
- a. Subpostmaster produces a cheque listing report from Horizon (which shows the value of each cheque accepted that day).
 - b. Subpostmaster verifies that the cheques held in the till match (volume and value) against the cheque listing report.
 - c. The total cheque value is then marked on Horizon as being remitted to POL (known as "remmed out").
 - d. A further cheque listing report is then produced. This will show the cheques being remmed out as a negative value and the report will now total zero.
 - e. The cheque listing report is "cut off". The branch cheque stock will now also be zero.
 - f. A Batch Control Voucher (BCV) is manually completed to show number of cheques, value and despatching branch. The cheques are attached to the BCV. The cheques are then despatched for processing in the relevant envelope via Royal Mail to the cheque processor.
 - g. Horizon cheque listings and remittance slips are retained in branch.

FSC process

246. The POLSAP finance system at the FSC is automatically updated each night from Horizon (for the values of cheques remmed out from branches). The cheque team in FSC are able to view this data the day after the transactions and will see the outward remittances recorded.

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247. Similarly, an electronic file will be received overnight by FSC from the cheque processor via an automatic upload into POLSAP which shows the actual cheques received from each branch. FSC can then compare the values recorded by the branch as despatched against the values recorded by the cheque processor as received.
248. Approximately 1,000 entries will remain unmatched each day (ie. there is a discrepancy between the cheques received by the cheque processor and the information sent via Horizon by Subpostmasters about cheque remittances) and could be an indication of missing cheques. Many cases are resolved quickly (ie. late delivery by Royal Mail or the Subpostmaster missed the collection or forgot to put a cheque in a pouch). There will be around 100 cases per month where it becomes apparent that a cheque has actually gone "missing".

Investigating lost cheques

249. It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the cheque processor. Post Office's policy is that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, Post Office will absorb this loss and not pass it on to the Subpostmaster.
250. In the vast majority of cases, Post Office either mitigates the loss caused by a lost cheque or absorbs the loss itself. Only a very small number of missing cheque cases result in Transaction Corrections being issued to a branch.
251. The process for investigating missing cheques is as follows:
- a. The transaction to which a missing cheque relates is (if possible) identified from the information inputted into Horizon by the Subpostmaster.

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- b. Branches will be contacted when the missing cheque case is set up to see if the cheque can be found in branch or if they are aware of which customer presented the cheque which has subsequently gone missing.
 - c. If the branch cannot find the lost cheque, a variety of techniques (depending on product/information available) are employed to identify the customer and their address from the transaction data.
 - d. The customer is then contacted to request a replacement cheque. If a replacement cheque is provided then the loss to Post Office is avoided.
 - e. If a replacement cheque is not forthcoming, the relevant client organisation (ie. the product supplier, say Bank of Ireland, Environment Agency, etc.) is informed that the payment for that particular transaction has not been received and the transaction is reversed where possible. By reversing the transaction the loss to Post Office is avoided.
 - f. Alternatively, if Post Office is unable to identify the customer details, the relevant client organisation may be asked to try to contact the customer directly for payment. By payment being made direct from the customer to the client, the loss to Post Office is avoided.
 - g. If the transaction related to the missing cheque cannot be identified or if the transaction is identifiable but payment cannot be recovered from the customer or the client and the transaction cannot be reversed, Post Office will absorb the loss of the cheque provided discussions with the branch and a review of transactional data does not reveal a breach of the operational processes.
252. There are two typical scenarios where Subpostmasters have failed to follow operational processes and will be held liable for missing cheques:

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- a. Cheques have been accepted by the Subpostmaster for a non-cheque acceptable product. Post Office's client determines the method of payment they will accept for the product or service they are selling through the Post Office and this is detailed in the operational instructions to branches. Typically, where the service/product is cash or instantaneous, then cheques are not acceptable (e.g. foreign exchange sales) because if these cheques are then not honoured, the service/provision of cash has already been provided/taken place and cannot be stopped, or recovered.
 - b. The method of payment has not been correctly recorded on Horizon with the cheque as the MOP and it subsequently proves impossible to associate any transactions with the missing cheque. Such an instance will typically be illustrated by branches recording multiple/all transactions through "Fast Cash" and then introducing a bulk cheque value to Horizon via a "Cash/Cheque Adjustment" at the end of the day prior to remitting out. Again, this may frustrate Post Office's usual loss mitigation steps described above.
253. Where a Subpostmaster is held liable for a missing cheque, a Transaction Correction will be sent to the branch reversing the remittance of the cheque by the branch. This will return the value of the "missing" cheque to the branch's cheque stock. If the branch cannot obtain a replacement cheque from the customer, there will be a cheque shortage at the end of the trading period that the Subpostmaster will need to make good.

Bounced cheques

254. Paragraph 18.4 makes reference to specific complaints by Applicants (rather than it being a common theme amongst Applicants) that they were liable for cheques that bounced. As described above, the branch accounts treat cheques like a stock item. So long as the branch accurately records the receipt of

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cheques from customers and the remittance of cheques to Post Office, then the branch is not concerned with the banking of any cheques. The banking of cheques and recovery of payment from customer's bank is conducted by FSC. Post Office absorbs the credit risk posed by accepting payment by cheque and should a cheque bounce, Post Office will absorb the resulting loss.

255. The only exception to this rule is where the branch has failed to follow operational procedures. This may have included not completing the details in accordance with a cheque guarantee card (until these ceased in 2011) or taking payment for a product where payment by cheque is not permitted.

Transaction Corrections for missing or bounced cheques

256. Paragraph 18.8 makes reference to Applicants not being able to mitigate their losses as the Transaction Correction for a missing or bounced cheque has been sent to them too long after they accepted the cheque. Transaction Corrections may be delayed on occasions but this is not the fault of Post Office. In some instances Post Office is dependent on a response from a third party (such as the customer's bank) before the Transaction Correction can be issued. This may have resulted in some delay but, as stated above, if the correct process is followed then Subpostmasters will not be liable for any lost or bounced cheques.

257. Typically, however, if there is an issue with a cheque, that issue will be raised with the branch through other channels. In most cases, the branch will be aware of the issue long before the Transaction Correction is submitted.

Evolving practices

258. At paragraph 18.5, the Report suggests that as practices have 'evolved', Post Office has not expanded the range of products for which cheques should be acceptable. This causes Subpostmasters to break Post Office procedures and makes them liable for missing or bounced cheques. This idea is based on the

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flawed assumption that practices have 'evolved' - in fact, the practices have not changed. It is simply that some Subpostmasters decide not to follow the correct procedures in certain circumstances. Where they take that risk, they are responsible for any resulting losses.

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Post Office's response to section 19 - Pensions and Allowances

259. Section 19 of the Report concerns the risk of fraud taking place in relation to Pensions and Allowances (**P&A**) transactions. In particular, the Report states that Subpostmasters could be innocent victims of this type of fraud but still liable for the resulting losses in their branches.

260. For the reasons set out below, P&A fraud by branch staff can be easily detected by a Subpostmaster before any loss occurs so long as he/she is carrying out proper end of day checks on P&A transactions. Subpostmasters are therefore liable for any losses in their branch caused by P&A fraud as this loss arises due to their failure to conduct adequate checks.

Benefit payment methods

261. There are various methods by which benefits can be received by customers:

P&A books

262. P&A books were provided by the Department of Work and Pensions (**DWP**) to customers entitled to benefits. A nominated Post Office branch was set out on the cover of each P&A book, together with the customer's name and address. Within each book were (usually) 20 dockets, vouchers or foils (referred to in this Reply as vouchers) stating the FAD code of the nominated Post Office branch, voucher number and amount to be paid. The vouchers were presented to the branch staff, processed through Horizon and then cash paid to the customer. The vouchers were despatched each week by each branch to the Paid Order Unit (which in effect is the DWP) in Lisahally, Northern Ireland.

263. P&A books ceased to be used in circa 2005 and were replaced by the Post Office Card Account.

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Post Office Card Account (POCA)

264. POCA is a limited service bank account that only allows benefits to be deposited into the account by DWP and cash to be withdrawn. Withdrawals are conducted by the customer taking his POCA card into a Post Office and withdrawing in cash either some or all of the benefits within his account.

Green Giros

265. Customers who lose their POCA cards or customers who are on temporary benefits may be sent Green Giros by the DWP.
266. These are cheques (also known as DWP cheques) which set out the payment amount and can be cashed in the usual way. These cheques are date stamped and retained by Post Office after paying the customer. They have historically been accounted for and despatched by each branch weekly to Alliance & Leicester. They are now sent to Santander (both banks are referred to in this note as Santander for ease of reference). Green Giros should not be confused with Giro Payments which are an entirely different product.

P&A fraud

267. P&A fraud encompasses a number of different types of fraud, some of which are historical due to the change in payment methods over time.

'Overclaim' fraud

268. For each benefit payment to a customer recorded on Horizon, the branch should take from the customer the associated P&A voucher or cheque and remit each week all vouchers to the DWP and all Green Giro cheques to Santander. An 'overclaim' occurs when the branch records a benefit payment on Horizon but does not remit the associated voucher or cheque. Without the voucher/cheque, POL cannot recover the payment from DWP/Santander. This places a loss on POL which is then passed to the branch by way of a Transaction Correction (formerly known

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as an error notice, but referred to in this note as a Transaction Correction for ease of reference).

269. 'Overclaims' are relatively easy to identify as the branch must record the remittance of vouchers or cheques out of the branch on Horizon and therefore it is possible to identify any missing weekly remittance.
270. A fraud can be committed by recording fake benefit pay-outs on Horizon, which lowers the amount of cash recorded as being in the branch (as Horizon assumes the cash has been passed to the customer). This causes a short term surplus (until the missing voucher/cheque is discovered and a Transaction Correction is sent through) which can be used to cover other losses or removed from the branch at the end of trading period (assuming that there are no other offsetting losses).

Reintroduction fraud

271. Reintroduction fraud is a more sophisticated version of 'overclaim' fraud whereby the false benefit pay-outs are disguised by the submission of duplicate paperwork.
272. In reintroduction fraud, a legitimate benefit pay-out is recorded on Horizon with cash being paid to a customer but with the corresponding voucher/cheque not being date-stamped or remitted out to DWP/Santander. At a later date (typically the following week), the same benefit pay-out is recorded again on Horizon. This time, however, no cash is paid to a customer (as the customer is not present) but the previous voucher/cheque is date-stamped at the later date and remitted to DWP/Santander.
273. For example, in week 1 there would appear to be an 'overclaim' (amount claimed but no corresponding voucher or cheque). The amount would be claimed again in week 2 by submitting the cheque or voucher from week 1 (by this time date-stamped). The fraud is premised on DWP/Santander not spotting the missing voucher or cheque in week 1 or the reintroduced voucher/cheque in week 2. However, in practice, each

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voucher/cheque has a unique reference number which allows duplicate paperwork to be identified.

274. Each of these frauds has taken place both before the introduction of Horizon and when Horizon was in operation in Post Office branches. This is not a Horizon related issue. It is also largely an historic issue as most benefit payments are now through POCAs (which are not susceptible to the above frauds) although some Green Giro Cheques are still processed in branches.

Fraud prevention in branch

275. It should be noted that 'overclaims' and 'reintroductions' will not cause a loss to a branch. They generate a cash surplus which, as long as the cash has not been removed from the branch, will off-set any later Transaction Correction.
276. It was possible historically - and remains open to a Subpostmaster now - to carry out immediate checks for P&A fraud as a Subpostmaster will have access to: (i) each week's batch of cheques/vouchers and (ii) that week's records of P&A transactions as recorded on Horizon. It is therefore possible for a Subpostmaster to easily confirm that the value of the cheques and vouchers being remitted each week match the value of benefit pay-outs recorded on Horizon. This would reveal any 'overclaims' or reintroductions.
277. For this reason, Post Office does not consider that a Subpostmaster could be the innocent victim of P&A fraud. If a Subpostmaster does not follow the proper process for remitting out P&A documents, and thereby fails to stop any 'overclaims' or reintroductions at source, they are liable for any resulting losses.

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Post Office's response to section 20 - Surpluses

278. Section 20 of the Report considers Post Office's approach towards the surpluses that may be generated within branches.
279. As stated at paragraph 20.1, the contract between Post Office and Subpostmasters allows surpluses to be withdrawn provided that any subsequent charge is made good immediately. This means that Subpostmasters may retain surpluses that may be generated. The report confirms, correctly, that Post Office views both surpluses and deficits as discrepancies. However, the Report arrives at the incorrect conclusion that Post Office are not as concerned with surpluses as they are with deficits.
280. Whenever Post Office discovers a discrepancy that can be attributed to an error in branch, whether it is a surplus or a deficit, it will generate a Transaction Correction to correct the branch's accounts.
281. Where discrepancies occur in branch (say at the end of a trading period where there is a shortage or a surplus of stock or cash), it is for the Subpostmaster to dispute the discrepancy. This is done by contacting the NBSC. As there are more challenges to deficit discrepancies (and debit Transaction Corrections), Post Office spends more time investigating deficits than surpluses.
282. The system processes six million transactions every working day. Post Office only investigates a discrepancy in branch if the Subpostmaster requests assistance - it does not investigate every discrepancy identified in a branch's accounts:
- a. First, most discrepancies are fairly small and so do not warrant a full investigation unless the Subpostmaster raises an issue.
 - b. Secondly, the sheer volume of discrepancies would make investigating them all unworkable.

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- c. Thirdly, where a discrepancy arises in branch (ie. the cash on hand does not match the cash figure on Horizon) an investigation will require close involvement of the Subpostmaster and their staff as only they will know how the branch has transacted its business.
283. The Report's conclusion that Post Office is not concerned with surpluses is therefore not correct. In any event, it is noted that this topic does not give rise to any thematic issue that indicates the Post Office or Horizon is responsible for losses caused in branches.

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Post Office's response to section 21 - Counter-errors that benefit customers at the expense of the Subpostmaster

284. Section 21 of the Report considers occasions when customers may benefit from certain errors in branch to the detriment of Subpostmasters. This section does not give rise to any thematic issue but rather appears to raise a series of discrete points.
285. Paragraph 21.1 of the Report highlights that mistakes can occur when a counter clerk presses the 'deposit' icon rather than the adjacent 'withdrawal' icon. This error by a Subpostmaster or their staff would have the effect of doubling the size of the error (as the branch will record the receipt of money into the branch in the accounts which increases the recorded cash position but will have also handed over cash to the customer thereby lowering the amount of cash in the branch).
286. Post Office agrees that this error may occur but this would clearly be an error within the branch, not a systemic problem with Horizon. In these circumstances the Subpostmaster would be liable for the error and any loss that has been created in accordance with section 12, clause 12 of the Subpostmaster contract.
287. Paragraphs 21.2 and 21.3 are a repetition of the issue raised in section 23 - on which point, see Post Office's comments on that section.
288. Paragraphs 21.4 - 21.7 are a repetition of the issue raised at paragraph 14.1 - on which point, see Post Office's comments on that section.

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Post Office's response to section 22 – Error and fraud repellency and Horizon's 'fitness for purpose'

289. Section 22 of the Report considers whether Horizon is sufficiently error and fraud repellent. It raises 4 issues:
- a. Has Post Office sufficiently upgraded and developed Horizon over time?
 - b. Does Horizon accurately record transactions processed in branches?
 - c. Is Horizon resistant to power and telecommunications failures?
 - d. Should Horizon work for every single user no matter their competence?

Developing Horizon

290. The Report states that Post Office has not sufficiently upgraded and developed Horizon over the years so that there is a situation where *"errors and fraud that could, in our view, have been designed out of the system"* did not happen. As a result, the Report alleges that Subpostmasters have been liable for losses that could have been avoided.
291. This conclusion is unsupported by any evidence and is incorrect.
292. The Report contains no analysis of the development of Horizon over the years. It is unclear on what basis the Report considers Horizon to be under-developed when there has been no consideration of Post Office's processes for reviewing and improving Horizon or of the upgrades that have been implemented.
293. Post Office in fact has a number of processes in place for regularly reviewing and improving Horizon. These include:
- a. **Incident and Problem Management processes.** Both of these processes ensure that where a branch reports an issue it is

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investigated and resolved. Where several instances of the same issue occur, then a problem record is created and the root cause of the issue is identified and fixed (ie to avoid further instances). The resolution of problems can sometimes be minor amendments to processes or can result in a change to the software code via the next release of upgraded software.

- b. **Operational reviews with Fujitsu.** These take place on a monthly basis across a number of different specialist teams in both Post Office and Fujitsu. The purpose is to monitor and review past performance, addressing any issues as required, and to prepare for known changes or upcoming events.
- c. **Operational reviews with the NFSP.** These have been in place for over 10 years and have operated on either a monthly or quarterly basis across that period. It has involved the NFSP Executives meeting with senior representatives from Post Office's IT Service, Network and FSC teams. A number of operational issues are raised via these meetings and actions are taken to resolve and improve either Horizon or associated processes. Other systems are also discussed as and when relevant eg ATMs.
- d. **Continuous Service Improvement.** This is a standard process that Post Office's IT Services operates with all of its suppliers. Post Office considers that Fujitsu are particularly good in this area and have, over a number of years, developed and introduced a number of improvements. This has included Fujitsu, by their own initiative, providing additional funds to be used by Post Office for improvements to Horizon. Fujitsu were not contractually obliged to do this. The approach agreed with Fujitsu was to use NFSP's input to drive the improvement initiatives. This process and the tri-party working, including NFSP members' active involvement in conducting demonstrations and tests,

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resulted in improvements directly driven by the NFSP and funded by Fujitsu.

294. Ultimately, the Report appears to agree with Post Office's position in that it states at paragraph 22.21 that "*a number of enhancements have been made to Horizon following experience and feedback*". Whilst specific examples are not provided as evidence, this shows that Post Office is engaged in evolving its systems to improve user experience.

Accuracy of capturing transactions

295. At paragraph 22.23 the Report states that, in Second Sight's opinion, for Horizon to be 'fit for purpose' for all users it needs to record and process the wide range of products and services offered by Post Office and enable Subpostmasters to investigate any cause of issues that may arise. The Report concludes that from the cases reviewed, although no specific examples are provided, that although the core software of the system works, it may not provide an ideal user experience for less IT literate users.

296. Horizon is capable of capturing all information and processing all transactions if used properly. No system errors have been highlighted in the Report. Further, no examples or explanations are provided to suggest that Horizon, if operated in accordance with standard operating procedure, would not accurately capture transaction data.

297. In fact, of the cases that have been fully reviewed so far, not one has presented any evidence whatsoever that Horizon did not accurately record the transactions processed by Applicants or their staff.

298. Horizon is designed to ensure the accuracy of transaction data submitted from branches. Safeguards are in place to ensure that no transactions are lost, altered or improperly added to a branch's accounts:

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- a. **Encryption.** Transmission of transaction data between Horizon terminals and the Post Office data centre is encrypted.
- b. **Net to Nil.** Baskets³ must net to nil before transmission. This means that the total value of the basket is nil and therefore the correct amount of payments, goods and services has been transacted - as the value of goods and service should always balance with the payment (whether to or from the customer). Baskets that do not net to nil will be rejected by the Horizon terminal before transmission to the Post Office data centre.
- c. **No partial baskets.** Baskets of transactions are either recorded in full or discarded in full - no partial baskets can be recorded.
- d. **No missing baskets.** All baskets are given sequential numbers (called "Journal Sequence Numbers" or JSNs) when sent from a Horizon terminal. This allows Horizon to run a check for missing baskets by looking for missing JSNs (which triggers a recovery process) or additional baskets that would cause duplicate numbers (which would trigger an exception error report to Post Office / Fujitsu).
- e. **Secure data store.** Transaction data is stored on a secure audit server. All transaction data is digitally sealed - these seals would show evidence of tampering if anyone, either inadvertently, intentionally or maliciously, tried to change the data within a sealed record.

299. In summary, Post Office remains confident that Horizon accurately records transaction data and the Report presents no evidence to change this conclusion.

³ See paragraph 7.15 of the Part One Briefing for an explanation of "baskets".

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Power and telecommunications failures

300. Despite the assertions made in this section of the Report, Post Office maintains that Horizon is capable of handling power and telecommunications problems. There is no evidence to suggest that either of these events would cause losses in branches where the recovery process has been correctly followed by branch staff. There is also no evidence to suggest that the recovery system may, as suggested in paragraph 22.8, *"not always have performed as it was meant to after a reboot"* or to support the conclusion made in paragraph 22.15. There is, however, evidence of branch staff failing to follow the recovery process properly. This would cause discrepancies in a branch's accounts and could be a cause of losses. It is, however, the result of human error by Applicants or their staff.

301. In Post Office branches, Subpostmasters are responsible for power supplies and the cabled telecommunications line (see paragraph 5.6 in the Part One Briefing Report). Interruptions in power supplies and telecommunication lines are a risk faced by all IT systems. There are, however, recovery systems built into Horizon to prevent losses occurring where there is a power or telecommunication failure. The following is a description of the recovery process:

- a. Following a failure to contact the Data Centre and complete a transaction, the system would automatically carry out a retry and attempt to save the basket to the Data Centre again.
- b. Following the failure of the second attempt, a message displays to the User informing them that there was a failure to contact the Data Centre and asking them if they wish to Retry or Cancel. It is recommended that Users only "Retry" a maximum of twice.
- c. When the User selects "Cancel" this results in a Forced Log Out. This means:

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- i. Horizon would cancel those transactions that could be cancelled.
 - ii. Horizon would then print out 3 copies of a Disconnected Session Receipt (one for the customer, one for branch records and one to attach to the till to aid with recovery).
 - iii. The receipt would show transactions that are either recovered or cancelled. Those products considered recoverable must be settled with the customer in accordance with the Disconnection Receipt.
 - iv. If a transaction is cancellable then stock should be retained by the branch.
 - v. Horizon would then log out the active user.
- d. The Subpostmaster should then make sure that, in accordance with the Disconnect Receipt, the Customer is provided with any funds due to be returned to them in accordance with the Disconnect Receipt.
 - e. The system would then display the Log On screen. The User may then attempt to Log On again.
 - f. As part of the Log On process, the system checks the identity of the last Basket successfully saved at the Data Centre and compares it with the identity of the last Basket successfully processed by the counter. If the last basket saved in the Data Centre has a higher number than that considered to be the last successful basket processed by the counter, the recovery process at the counter would then repeat the process that the counter had carried out at the point of failure.
 - g. A Recovery receipt would have been printed reflecting these transactions.
 - h. A message is displayed to the user confirming that the recovery is complete. They then return to the Home screen.

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Depending on the transactions being conducted at the time, the user may be asked a series of questions to complete the recovery process.

302. It is noted that in Second Sight's Interim Report in 2013, it specifically looked into this recovery process following a telecommunications failure. Second Sight found that the recovery process worked but questioned the speed of the response from Horizon.

303. In the latest version of the Report (at paragraph 22.5 onwards), Second Sight has raised a single new challenge to the recovery process. It says that it believes that sometimes key messages are not displayed on the Horizon screen during the recovery process. Unfortunately, Second Sight has presented no evidence to support this allegation. This situation has also not been raised in any case seen by Post Office and so it cannot comment further. Until such time as Second Sight is able to substantiate this speculation, Post Office maintains that the recovery process is robust.

Fitness for all users

304. At paragraph 22.25, the Report notes that there are some people who are unsuited from the outset to using a computerised branch. How this relates to the question of whether Horizon is fit for purpose is unclear.

305. Horizon is operated by thousands of Subpostmasters, the majority of whom have not had any issue with the system or the effectiveness of it. Whilst a small number may find the operation of the system difficult, this does not make Horizon not fit for purpose. The subjective experience of a few people is not evidence that an IT system is objectively not fit for purpose.

306. For this assessment to be carried out, the Report would need to identify some form of industry benchmark against which to judge Horizon. Also, the phrase 'fitness for purpose' has a

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specific legal meaning and is therefore a subject on which Second Sight has no expertise to offer an opinion. The Report does not establish or seek to articulate any legal or industry benchmark and so its findings are unsupported by evidence or any robust analysis.

307. Post Office maintains that the fact that almost 500,000 users have used Horizon since its inception and only 150 have raised a complaint to the Scheme shows that it is fit for purpose.
308. Post Office rejects the assertion made at 22.31 that it does not improve its processes. The Branch Support Programme was established to consider what more could be provided to improve the effectiveness of the support that Post Office provides to Subpostmasters and operators in the running of their Post Office branches from an operational and engagement perspective. This work is continuing and involves:
- reviewing the life cycle of the Subpostmaster and all touch points with the business;
 - taking input from owners, users and recipients of Post Office policies and processes;
 - designing policies and processes that deliver improved ways of working with the Subpostmaster network in a cost effective and engaging way;
 - implementing improvements as soon as possible.
309. The focus of the Programme is predominately how the business supports the agency network and the policies and processes that impact on the Subpostmaster. However, where the issues are the same for the Crown network then these are also included within the scope of this Programme.
310. Post Office therefore does look to improve its processes as any prudent business does.

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Post Office's response to section 23 - One-sided transactions

311. Section 23 of the Report comments on what it calls 'one-sided transactions'. These are transactions that the Report states have not fully completed all the constituent parts of the transaction. This is either because: (i) there has been a charge to the customer for goods or services but they do not receive the goods/service; or alternatively (ii) a transaction is processed but the customer's bank account is not charged for the purchase.
312. The Report speculates that these situations could, somehow, give rise to a loss to a Subpostmaster. Thus far, Post Office has not been presented with any evidence that there is a general issue with Horizon or Post Office's processes that could give rise to the above scenario.

Safeguards

313. The Report suggests at paragraph 23.2 that one cause for a 'one sided transaction' is due to a telecommunications failure. Post Office accepts that telecommunications issues can give rise to 'one-sided transactions'. This is an inevitable risk of transacting business across the internet and affects all retailers and banks. Also, like all retailers and banks, Horizon has recovery processes in place to rectify any 'one sided transaction' errors. These safeguards are specific to particular products so it is not possible to explain them all in one document.
314. Communication failures can have two broad impacts. The main impact would be the type of interruption that is addressed by recovery prompts that are referred to in section 22 of this Reply.
315. The other impact (which would affect the customer, not the Subpostmaster) would be where a debit card payment was interrupted after the bank had ring-fenced the customer funds for the payment but before the counter confirmed that the

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transaction was complete. This can lead to a situation where although there is no issue for the branch accounts, the customer is no longer able to draw down on funds in their bank account because they remain ring-fenced for the original attempted transaction. Banks have routine processes to clear down ring-fences within a couple of days or on an accelerated basis by specific enquiry. This would not affect branch accounts but could, of course, lead to customer complaints to their banks.

No risk to branches

316. From a branch's perspective no discrepancy will arise from a 'one-sided transaction' as the branch accounts are based on the information received by Horizon and not on the information held by a third party client.

317. If a transaction is recorded as completed on Horizon, then the accounts will also have recorded a corresponding payment from the customer or the handing over of cash or stock to the customer.

318. If Horizon records the transaction as failed, then the transaction will not complete on Horizon and no payment, to or from the customer, will be recorded. Likewise, as Horizon records the transaction as failed, the branch staff should not hand over any cash or stock to a customer.

319. Regardless of whether the client's IT systems record a completed transaction or not, the effect of the above is that the branch accounts will be in balance. The fact that there may be a discrepancy between Horizon and the third party client's records does not, as described above, change the branch's accounting position.

320. For this reason, the statement at paragraph 23.11 about Post Office's Suspense Account is inaccurate. The safeguards described above ensure that any sums held in the Post Office central Suspense Account are investigated as fully as possible. In any event, the releases to profit should be considered within

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the overall context of Post Office performing around 2.5 bn transactions per annum, with a combined value in the order of £60bn. The amount of unresolved credits that end up in Post Office's P&L is therefore less than 0.001% of all transactions (by value) undertaken by branches.

Branch awareness of this issue

321. At paragraphs 23.3-23.7 the Report states that the only way a one-sided transaction would be discovered is if the customer was to notify the branch. The Report goes on to suggest that where the customer has benefited from the transaction (i.e. they have received goods which they did not pay for) they would not be aware or would not say anything. Therefore, the Subpostmaster would only be aware of the error if the customer disclosed it.

322. For the reasons stated above, this view is incorrect and, in any event, irrelevant as a branch will never be liable for an error caused by a 'one sided transaction'.

Conclusion

323. In summary, whilst the Report fails to prove that this is a thematic issue of general application, Post Office has demonstrated that a 'one-sided transaction' cannot give rise to a loss to Subpostmasters.

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Post Office's response to section 24 - Hardware issues

324. Section 24 of the Report makes some general comments and observations about Horizon terminals and other associated branch hardware. However, the Report does not present any evidence to support its speculations nor does it clearly identify any issues that may be common to many Applicants within the Scheme.
325. Post Office accepts that hardware problems can arise and that equipment is replaced from time to time. However, this is very dependent on the circumstances of an individual case and does not give rise to a thematic issue.
326. Further, the Report does not attempt to undertake any form of statistical analysis or industry benchmarking. In this area, it would be common to see an assessment of 'mean time between failures' as a way of judging performance.
327. In any event, as described at in section 22 of this Reply, there is a recovery process in place to manage hardware failures.
328. Paragraph 24.1 of the Report highlights that some Horizon equipment is more than 10 years old. Whilst this may be correct, there is nothing to show that the age of the equipment is a cause of any losses.
329. At paragraph 24.2 the Report states that there is little routine hardware maintenance. This is correct but equipment is replaced as and when needed and this is industry standard practice.
330. Paragraph 24.4 states that many Applicants believe that faulty equipment could be responsible for the losses suffered. This is not correct and no evidence has been put forward to support the view that hardware issues have caused losses in branches.

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Post Office's response to section 25 – Post Office Audit Procedures

331. The Report says at paragraph 25.1 that Applicants were not provided with copies of audit reports, although it does acknowledge, at paragraph 25.2, that Post Office's current practice is to provide each Subpostmaster with a copy of any audit report. The practice of providing a copy of the audit report has always been in place.

332. Post Office is not aware of Applicants not being provided with copies of audit reports when requested however Post Office cannot categorically say that this has never happened in an individual case. Nevertheless, the lack of access to an audit report is not a cause of losses in a branch and would not exonerate a Subpostmaster from their contractual responsibility to make good losses caused in their branch that were revealed by an audit.

333. At paragraph 25.3 onwards, the Report repeats the concerns of Applicants about the scope and conduct of Post Office audits. However, it does not offer any opinion or analysis of those concerns. For its part, Post Office has found no evidence in any of the cases reviewed to substantiate allegations that its auditors acted improperly

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Post Office's response to section 26 – Post Office Investigations

334. This section of the Report provides Second Sight's opinion on the process that is undertaken by Post Office when it investigates criminal activity in branches.
335. This topic is outside the scope of the Scheme (which is to consider "Horizon and associated issues") and is also outside the scope of Second Sight's expertise. Second Sight, as forensic accountants and not criminal lawyers, are not qualified to comment on Post Office's prosecution processes.
336. This is highlighted by the statement in the Report that the focus of Post Office investigators is to secure an admission of false accounting and not to consider the root cause of any losses. This is incorrect – Post Office investigators' first job is to establish what has happened in the branch.
337. By falsifying the accounts (whether through the inflation of cash on hand or otherwise) Subpostmasters or their assistants prevent Post Office from being able to identify the transactions that may have caused discrepancies and losses. The first step in identifying a genuine error is to determine the days on which the cash position in the accounts is different from the cash on hand. Where the cash on hand figure has been falsely stated, this is not possible.
338. The false accounting therefore hides any genuine errors from Post Office and a Subpostmaster. It hides it at the time the losses occur and it remains the case now that Post Office is not able to identify which transactions may have caused the losses. The Report is therefore entirely incorrect in its evaluation of how Post Office approaches prosecutions. It is the Subpostmaster's (or their assistant's) false accounting that prevents Post Office from investigating the underlying losses, not the attitude of Post Office investigators.
339. Given that this is a topic on which Second Sight can offer no expert opinion, this Reply does not comment on this section

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of the Report other than to confirm that it rejects all the
Report's findings.