
From: Callard, Richard - UKGI[/O=HMT/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=6988FBA346C64632AA2C6DDACEAC7D18-CALLARD, RICHARD (RC)]

Sent: Thur 07/07/2016 8:50:07 AM (UTC)

To: King Iain (Finance); [REDACTED] **GRO**

Cc: Adetimilehin, Olutobi - UKGI; [REDACTED] **GRO**; Manson, Justin - UKGI; [REDACTED] **GRO**; Russell, Mark - UKGI; [REDACTED] **GRO**

Subject: Post Office and fraud case

Attachment: ARC update

Iain

Further to our conversation yesterday, I am writing to notify you of a fraud that is being investigated by Post Office at the moment. Whilst this is not at the moment material (c£800k), it has led to a delay in the signing of the accounts (by around two weeks most likely) and has raised issues within the business regarding escalation procedures. I do not consider that we need to inform ministers at the moment, given the size of the issue and the fact that the business has been operationally doing the right thing at the local level, it is the escalation to senior management that seems to have failed. However, POL have undertaken to inform me immediately if the quantum of the issue increases, or if the delay in the accounts signing is further extended. I have attached an email from the CFO to the POL ARC, and have summarised the relevant points below.

- As you know you can deposit funds in to your (non-Post Office) bank account at post offices
- Along with other cash transactions, around £70bn of cash passes through the network each year
- The attached email explains the fraud, but it's important to note that POL had picked this issue up previously, had terminated the subpostmaster involved, and had called in the police who made arrests. Unfortunately there was not enough evidence to prosecute.
- POL put in place measures to pick up future cases of fraud, and prevented and recovered monies when it was attempted again. So the issue appeared to have been dealt with.
- However, very recently it reoccurred in another area where special measures were not in place.
- This issue had not been escalated to senior management (possibly because local reps thought they had dealt with it successfully), and therefore only came to light as the accounts were about to be signed. This has led to a delay in the signing of the accounts.
- Frustratingly for POL, the head of security who knew about this issue had a conversation with their auditors some months ago specifically about fraud within the network, but did not mention this particular issue.
- This is therefore an issue of lack of escalation, not fully disclosing it to the auditors and a delay to the accounts.
- POL are looking to improve systems nationwide now to prevent a repeat of this. They are also looking to give a firm steer to the business that these issues should be escalated through the channels that already exist.
- E&Y's fraud team are investigating this issue and are expecting it to take 1-2 weeks. POL think this is an isolated incident because cash reconciliations have not picked up this problem elsewhere (noting that those reconciliations *did* pick up the problem in this case)
- As noted in the attached email, should this issue increase in size, or lead to a further delay in the accounts, the CFO will let us know. We will then consider whether it is necessary to inform ministers, but we do not consider that it is necessary at the moment because a) investigations are under way, b) it is not particularly material, and c) POL's systems had picked up the issue and the relevant authorities had been informed.

I would appreciate if any onward circulation of this email and its attachment could be kept very tight.

Kind regards

Richard

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