

Message

From: Loraine, Paul [REDACTED] GRO
on behalf of Loraine, Paul [REDACTED] GRO
Sent: 18/11/2016 13:42:34
To: Rodric Williams [REDACTED] GRO
CC: Matthews, Gavin [REDACTED] GRO; Parsons, Andrew [REDACTED] GRO
Subject: RE: PRIVATE & CONFIDENTIAL - Post Office Limited
Attachments: CCRC update; RE: CCRC - MacDonald/Broughton Branch - Zubeir Patel

Rod

Here is a brief update on the action points below – my comments are in red.

So everything is in one place, I wanted to tie in one other outstanding point, the detail on which is explained in the attached email headed "CCRC update". Please can you provide approval for Millnet to release documents to the CCRC on the 8 cases named in my email? If you are happy for me to progress this, I will inform Millnet and draft the usual letter to go from POL to the CCRC confirming that new material has been released.

Thanks

Paul

Paul Loraine
Associate
Bond Dickinson LLP

Bond Dickinson

Direct: [REDACTED]
Mobile: [REDACTED]
Office: [REDACTED] GRO
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From: Rodric Williams [mailto:[REDACTED]] GRO
Sent: 14 November 2016 11:05
To: Loraine, Paul
Cc: Matthews, Gavin; Parsons, Andrew
Subject: FW: PRIVATE & CONFIDENTIAL - Post Office Limited

Paul,

I am forwarding for your records the update email I sent to the CCRC last night, which has the following action points:

1. Introduce CCRC to Zubes Patel – **completed** (see attached email). **No further action needed.**
2. Send CCRC copies of EFC documents from MacDonald file - **Bond Dickinson to complete**. Rod, I sent you an email on 15/11 (attached email marked "MacDonald") attaching the 3 documents within the scope of the CCRC's request to which we currently have access. I know we've both spoken to John Breeden separately and there is no sense of whether/when we'll be able to access the remaining 9 documents. Are you happy to forward the 3 documents we have to the CCRC with an explanation of why the others are not available? If you've not already sent the available docs, I'm happy to draft an email for you to send (with JB's help on explaining the IT issue) if helpful.

3. Search PO emails for Ron Warmington's report on investigation and prosecution practices – **PO to complete**. **Rod, Is there any update on this?**
4. Upload Misra transaction logs and notify CCRC once complete – **Bond Dickinson to complete**. **Millnet have received the discs safely and are in the process of uploading them to the data room. I will update you when the data is ready to release to the CCRC.**
5. Send sample KEL entries to CCRC - **Bond Dickinson to complete**. **Please see my email of 13.22 today. Please let me know if you need anything further from me on this.**
6. Respond to CCRC's 17.10.16 email on transaction log enquiries (copy attached) - **Bond Dickinson to advance**. Post Office used to have trained Financial Investigators in the Security team (e.g. Dave Posnett and Helen Dickinson) who might be able to provide initial responses, and/or talk through the logs with the CCRC (which I suspect may be easier than swapping emails). **DP has suggested two other names (he and HD are not currently well placed to comment) and I am following this up. Once I have a volunteer to speak to the CCRC, I will send on their details to you so you can inform Amanda Pearce.**

Can you please make a note of these and make sure we cover them off in good time (including chasing me if I haven't closed off the Post Office actions)?

Thanks, Rod

From: Rodric Williams
Sent: 13 November 2016 23:17
To: 'PearceA'
Subject: PRIVATE & CONFIDENTIAL - Post Office Limited

Dear Amanda,

I refer to our recent emails and discussions, and respond on the various issues raised below:

MacDonald case

Zubes Patel is happy to discuss with the CCRC his experience at the Broughton branch, where he supplied temporary postmaster services following the suspension of Mrs MacDonald's contract with Post Office.

I will separately send an email introducing Mr Patel to Anona from your team. Copies of the documents requested from Post Office Limited's "Electronic Filing Cabinet" will also follow shortly.

Documents

1. I attach the final copy of the thematic spreadsheet created by Second Sight as requested.
2. You also asked for a June 2014 report prepared by Mr Warmington on POL's investigations department and prosecution process. After making internal enquiries, we were unable to locate such a document. You helpfully provided further information from Mr Warmington about this report in your email to me sent on 24 October 2016 which we are now using to help us in our search. However, because the employees to whom Mr Warmington's report was apparently sent both left the business quite some time ago, we are having to search our email archives. This will take time, and may not produce a positive hit without more precise information around the time of sending.

It may therefore be quicker and easier for Mr Warmington to provide the report. Are you aware of any reason why he would not be able to do this?

3. You asked whether we could locate the transaction logs for the Misra case. We requested the relevant data from Fujitsu and have now received transaction data for the following periods: February 2006 – October 2006; May 2007–July 2007; August 2007–January 2008. Please note that data relating to the following periods was no longer available: June 2005-January 2006; and November 2006-February 2007. We will arrange for the available data to be uploaded onto the data room and let you know when it is ready for your review.

Questions

1. The issue reported in Computer Weekly in November 2015 is indeed also referred to as the "Dalmellington Error". This issue was fixed in January 2016. It affected remote ("outreach") branches and as the name suggests was first identified at the Dalmellington branch.

I set out below an explanation of the issue, the problem identification, problem correction and wider context as provided to Post Office by Fujitsu:

"The Dalmellington Post Mistress who runs a Core and Outreach branch remitted £8,000 out of the Core branch and then attempted to remit the cash into the Outreach Branch. However when the cash was remitted into the Outreach Branch the system repeated the inward remittance transaction 3 times, thus remitting in a total value of £32,000. This was £24,000 more than the actual cash being remitted and so resulted in the system at the Outreach Branch showing a deficit of £24,000. All these transaction show up in the Branch Reports.

Problem Identification

There were actually 2 separate issues which if they occurred in combination lead to the scenario described above. These were the pouch script itself and the Force Log Off, which if they occurred together caused the issue. The scenario was:

- (i) Clerk starts to log on, entering username and password
- (ii) Clerk steps through some of the "post login checks" (e.g. Cash Declaration)
- (iii) Clerk abandons "post login checks" – walks away
- (iv) Counter "times out" and eventually Force Logs Off the Clerk due to Inactivity
- (a) An omission in the Counter code left this in the "incorrect state"
- (b) The state in question tracks the progress through the use-case
- (v) Clerk later logs on again – this time going all the way through to the Front Office menu
- (vi) Clerk tries to perform a Remittance
- (a) This Remittance use-case "inherits" the "incorrect state" from earlier.
- (vii) At the end of the Remittance the transaction gets "stuck" due to the earlier bad state which prevents Remittances from finishing properly.

Each repeat press of the enter key caused a new remittance to be recorded but each one appears in the branch reports and transaction records.

The Dalmellington case was the first time this had been identified to Fujitsu as an issue (even though there had been present in HNGX from day 1).

Problem Correction

This error was corrected at Counter release 12.88, CTR_APP_X1288_V646 following approval by POL by modifying the logic for these transactions so that the state tracking the progress through the current PDL transaction is reset so that it is not "inherited" by the next PDL use case. The milestones of solution implementation were:

- o 4th January 2016 Model office testing.
- o 7th January 2016 Pilot phase.
- o WC 11th January 2016 Live deployment.

Prior to the fix, following the issue being raised, active monitoring was put in place. No incidents were seen.

Wider Context

As well as performing the fix Fujitsu ran a process of checking for duplicate pouch details from the transaction archive and transaction logs. In total 112 instances were found. These were all individually investigated and had either at the time been 'corrected' by the subpostmaster themselves or the Post Office support desks when a call from a sub postmaster had raised the occurrence. All cases explained and closed.

Since the fix has been live no further incidents have been seen and the active monitoring for this has now been stopped."

I hope this explanation is sufficient for your needs.

2. It seems that there may be some confusion over the terminology being given to the different issues frequently cited about Horizon. The "Calendar Square/Falkirk issue" is not the same as the "Receipts and Payments Mismatch Problem", so in order that we may use the same terminology going forward I summarise the more frequently cited issues below:

CALENDAR SQUARE / FALKIRK

This defect, which was discovered in 2005 and fixed in March 2006, involved Horizon failing to recognise transfers between different stock units (i.e. individual terminals/serving positions).

For context, sometimes it is necessary to transfer cash between different stock units in a branch. For example, one stock unit may be running short on cash so the postmaster or branch staff may transfer some cash from stock unit A to stock unit B. Alternatively, it may be that an amount of cash has been remitted into the branch entirely on one stock unit creating a need to distribute that cash among the other stock units so they are all equipped to perform transactions.

The Falkirk anomaly came to the attention of Fujitsu when a postmaster in the Calendar Square branch in Falkirk highlighted a receipts and payments mismatch when balancing one of their stock units. This meant that, when the postmaster came to balance the branch's stock units, while the total for the amount of receipts into the system and the total for the amount of payments out of the system should have matched (owing to the double entry book-keeping principle), in this case they did not match.

The problem was that information recorded on one terminal (the terminal from which cash was being sent) was not being passed properly to the other terminal (the terminal receiving the cash). This meant that while cash was being transferred from one terminal to another, the transfer was only visible on the terminal it was being transferred out of, not on the terminal it was being transferred into. Effectively, the terminal receiving the cash could not "see" the transfer.

The problem produced a visible trace of "events" in the event logs*, in particular an event called "time out waiting for lock" which means that information which Horizon was trying to communicate to the terminal was effectively locked out from the terminal. In the Calendar Square branch, this problem was visible on the event logs multiple times.

After the problem was identified by Fujitsu, it was solved by putting a software fix into the system. This fix was distributed to the entire network – not just the affected branch – in March 2006. When the problem was diagnosed, advice was passed to the Calendar Square branch as to what to do if the problem happened again. If the branch was to

simply re-start the terminal, the issue would correct itself the following day. The same guidance was made available on the help desk for any other branches experiencing the issue.

This issue was the subject of expert evidence in the criminal prosecution of Seema Misra in 2010. The expert for the prosecution, Gareth Jenkins, then of Fujitsu, explained that the Falkirk bug could not have caused the losses in Mrs Misra's branch because (a) as explained above, the manifestation of this bug was clearly visible in branch records and there was no sign of its occurrence in Mrs Misra's branch records; and (b) the bug had been resolved more than a year before the relevant period in Mrs Misra's branch.

The Falkirk bug was also raised as part of a defence in a civil action by Post Office against a former postmaster, Lee Castleton in December 2006 /January 2007. The Court accepted the evidence from Fujitsu's witness, Anne Chambers, and found "no evidence" of the Falkirk bug in Mr Castleton's branch.

(* The event logs reflect the "back office" procedures such as users logging on and off Horizon, cash declarations and balancing, as opposed to "front office" transactional data.)

PAYMENTS MISMATCH

The payments mismatch bug affected 62 branches (13 crown; 12 multiples; 37 postmasters). It related to the process of moving discrepancies into the local suspense account and the majority of incidents occurred between August and October 2010.

The identification of this bug came about through Horizon's own in-built checks and balances which are designed to flag up such issues.

When discrepancies come to light during the rolling over of a stock unit onto a new transaction period, the user is asked if that discrepancy should be moved into the local suspense account. If the branch pressed the "cancel" icon at this stage, the discrepancy was "zeroed" on Horizon.

The effect of this was that the back end branch account (Post Office's central accounting system) showed the discrepancy while Horizon, in the branch, did not. The branch may have thought they had balanced when they had not.

In the affected branches, this created a "receipts and payment mismatch" equal to the value of the lost discrepancies. When the new Trading Period began, the opening figures for discrepancies in the new period was zero rather than the actual value of the discrepancy.

The first remedial step was for Fujitsu to ascertain which branches were affected. The mismatch generated an error code which allowed Fujitsu to identify the relevant branches. Fujitsu were then able to carry out analysis on each affected branch to gather relevant information. For example, they needed to ascertain when the receipts/payments mismatch occurred, the value of the lost discrepancy and whether it was a gain or a loss.

There were 17 postmasters who had a loss attributed to their branch. They were notified of this in March 2011 and, where appropriate, they were reimbursed. Postmasters who made a gain through the anomaly were not asked to refund this amount to Post Office.

SUSPENSE ACCOUNT BUG

The suspense account bug caused a small number of entries in the suspense accounts* of 14 branches (4 crown and 10 postmasters) in 2010 to be erroneously reproduced in those branches' suspense accounts for the same monthly trading period in 2011 and 2012.

By way of context, if a postmaster declares on Horizon that there is a discrepancy between the amount of cash and/or stock in the branch and the amount of cash and/or stock recorded on Horizon (say following an ad hoc cash/stock

count), the discrepancies can be removed from the branch's live Horizon records, so that the branch accounts will reflect the cash and stock actually in the branch at that point. However, the loss or gain in cash and/or stock is stored as a temporary accounting record in a separate part of Horizon called the "Discrepancy Account".

At the end of each trading period, the figures in the Discrepancy Account must be cleared before the branch can move on to trade during the next trading period (called "rolling over"). To do this, postmasters transfer the net value of all discrepancies recorded in Discrepancy Account during that trading period into a branch "Suspense Account". The postmaster can then settle any shortfall or surplus in the Suspense Account by making good the discrepancy or settling. After settling any shortfall or surplus, the Suspense Account resets to zero and the branch rolls over.

The suspense account bug was discovered when two postmasters who suffered discrepancies raised the matter with Post Office in January 2012. This error caused postmasters to re-settle the incorrect entries in order to clear their Suspense Accounts in 2011 and 2012 despite those entries already having been settled in 2010. In effect, some branches accidentally benefited from the same gain three times and some branches suffered the same loss three times.

Post Office began an investigation and identified the bug as being the cause of the issue in January 2013. Post Office suspended any attempts to recover known losses from affected postmasters whilst the issue was resolved.

3. You asked for a description of the "fault log" maintained by Fujitsu, which I believe is known at Fujitsu as the Known Error Log or "KEL". I understand that "Peak incident reports" and "pinnacle" are different parts of Fujitsu's service management processes and that they dovetail into the KEL. I would need to ask for more details from Fujitsu to understand their interaction fully but, for the current purposes, I believe that the KELs are the most important aspect.

The KEL is Fujitsu's log of known issues with Horizon. This captures the range of issues from very minor to more major issues. There are thousands of entries on the KEL, most of them unconnected to branch accounting. We have asked Fujitsu for some random examples of these entries, and will provide these to you in due course.

Fujitsu has confirmed there are no recorded issues in the KEL which directly affect the normal operation of the Core Audit Log. The Core Audit Log is the technical process within Horizon that forms the master record of the data entered on Horizon in branches and the transactions performed on terminals across the Post Office network.

If you would like to look into this line of enquiry further, it would first be useful to understand the type of information that you are looking for. Fujitsu may then be able to narrow the search to avoid having to trawl randomly the voluminous entries in the KEL.

4. I am seeking responses to the enquiries you have made about the April 2008 transaction log from the MacDonald case, and will forward these to you as soon as possible.

I hope this is helpful. Please let me know if you require anything further.

Kind regards, Rodric



Rodric Williams
Solicitor, Corporate Services
Post Office Ltd
20 Finsbury Street, London EC2Y 9AQ

GRO

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