

In Strictest Confidence

Brief to BIS for Edward Davey's prospective meeting with 'Justice for SubPostmasters Alliance'

The following confidential brief is to assist BIS in preparation for the forthcoming meeting between Edward Davey MP and the 'Justice for SubPostmasters Alliance' (jfsa). Further information can be provided if needed. It should be noted that the jfsa website makes the point that it has access to '*a criminal law firm and a major national firm of solicitors*' – therefore any statements or comments made at the meeting may be subsequently quoted in legal processes.

The following note looks at;

- An overview of jfsa
- Integrity of the Horizon System
- Comments of the action with subpostmasters for accounting irregularities
- Comments in respect of jfsa's stated aims
- Background on cited cases

Overview

The Justice for SubPostmasters Alliance has been set up '*to represent the victims of the Post Office and their Horizon system, as nobody else will*'. The organisation's stated aims (from its website) are;

- *there needs to be a fundamental change in the way suboffices are 'managed' by the Post Office and this can only be brought about at government level.*
- *There has to be an independent investigation into the introduction, operation, reliability and accuracy of Horizon.*
- *A complete change in the way subpostoffices are managed by the Post Office. Together with a new and fairer contract for subpostmasters that removes the pin-head dancing around a subpostmaster being an agent or an employee. A new contract that actually covers the use of IT in subpostoffices.*
- *An ombudsman or an independent third party has to be introduced between the Post Office and the subpostmaster who would hear appeals in issues of disagreement, as currently the Post Office act as judge, jury and executioner.*
- *Finally, the removal of the cosy relationship between the Post Office and the Federation has to happen (described by many as when the Post Office says jump, the Federation's only answer is, how high). This could easily be achieved by establishing an extra and alternative representative subpostmaster body.*

The jfsa website quotes 8 cases – spanning several years and all to do with accounting irregularities – which it seeks to cite as indications of a lack of robustness with the Horizon system.

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Integrity of the Horizon system

- The Horizon system has been in place for over 10 years. In a typical month the system conducts around 80 million customer sessions with 230 million transactions across the system. This is delivered through around 35,000 counter positions in around 12,000 Post Offices which perform weekly and monthly accounting balances. Around £175m per day is settled to over 700 client companies who use Post Office Ltd – a substantial flow of data to and from organisations with regularly audited accounts. Over its extensive period of operation the system has proved robust. The cases identified by jfsa where there is some kind of allegation in respect of the system are a minuscule proportion of the many millions of accounting events that subpostmasters have done within the system. Furthermore around 15% of POL's transactions have been conducted over Crown Office terminals which run exactly the same system yet no issues have been identified. If there were any systematic integrity issues within the system they would have been evident over the past 10 years. NFSP and CWU have expressed confidence in the system.
- The system is currently being updated to 'Horizon Online'. This is being done to achieve benefits in running costs and change management. It is not being done because there are any doubts about the robustness of the original Horizon system.
- The integrity of both Horizon and Horizon online is built on tamper proof logs, real time back ups, and absence of 'backdoors' so that all data entry or acceptance is at branch level and is tagged against the log-on ID of the user. This means that ownership of the accounting is at branch level and it is impossible to make changes to branch accounts remotely.
- Critically, Horizon creates a separate audit file of every transaction done with every record written to the log having a unique incrementing sequence number. This is retained remotely for seven years and cannot be altered in any way. Therefore, in any legal case relating to the system or allegations that data was missing, this audit log can be produced to identify exactly what was recorded onto the system in the branch concerned at the time concerned.
- Subpostmasters are trained on the system, there is material to support in branch and helplines are available. If an error occurs through a user mistake – there is a full system in place for investigation and error resolution. If there is a local disconnection of the system at a branch for any reason, IT controls detect the outages and raise recover alerts to the branch to check and update the accounts.
- As with any large organisation, Post Office Ltd has and continues to implement a range of mechanisms whereby accounting processes and outputs are regularly reviewed to ensure ongoing accuracy.

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Action taken with subpostmasters for accounting irregularities

Post Office Ltd has a regular system of auditing subpostmasters' accounts. If irregularities are discovered, then a formal and thorough investigation is triggered and, if necessary, action can be taken in accordance with the subpostmaster's contract. Subpostmasters have the right of representation throughout internal disciplinary procedures – and if the case leads to summary termination of contract, there is the right of appeal to an appeals manager who considers the case. Again there is a right to representation through this process – this role is often undertaken by the NFSP.

In certain cases, following consultation with legal advisors, a decision may be made by POL to pursue a criminal case. Since 2005 there have been 230 criminal cases that have proceeded to Court. Of these 169 have been found guilty and 18 defendants cautioned. Of the remaining 43, 1 was found not guilty but this was nothing to do with any Horizon challenge. 42 cases were not carried forward for a variety of reasons (but there is no suggestion that any of these reasons were related to concerns about Horizon).

Similarly, as there is a legal contract between the subpostmaster and Post Office Ltd, if a subpostmaster believes that his/her contract has been terminated inappropriately; he/she can also refer the process into the legal system.

Comments in respect of jfsa's stated aims

- Independent investigation into Horizon

The Horizon and Horizon online systems have been fully tested and meet all the requirements of Post Office's Clients. They produce full audit logs to enable the analysis of every transaction. There is no evidence of systematic error issues and individual cases of concern can be thoroughly forensically analysed via the audit logs. In this environment an independent investigation would be very costly and unwarranted. The Courts and the legal system provide the mechanisms to investigate individual cases should that be necessary – and that is the proportionate response to the very small number of specific cases where issues about Horizon have been alleged.

- A different Subpostmasters Contract

The current subpostmasters contract is a commercial contract with the Post Office Ltd that is freely entered into by the subpostmaster. It has existed, in a variety of forms, for decades with amendments to it being discussed and agreed with the NFSP (as the recognised representative body for subpostmasters). The current contract is the 1994 issue as amended by certain contractual variations since that point. As a commercial contract, it is fully compliant with, and falls under, the jurisdiction of UK laws.

- An ombudsman or third party to handle disputes between POL and subpostmaster

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The Subpostmasters Contract has Section 18 which explicitly covers appeal processes which include rights to be accompanied by an NFSP representative or a friend. Appeals are heard by a senior Post Office Manager who has not been involved in the case. As with any commercial contract, there are legal avenues available under UK Law which can be followed to resolve disputes.

- Establishing a representative body other than the NFSP

The NFSP is a recognised trade union (subject to all relevant trade union legislation) and an independent membership body that is widely recognised as representing the interests of sub-postmasters. It has over 7,500 members and a democratic structure through its membership to determine policy formulation. By contrast jfsa is a self appointed group that claims numbers 'close to 100' with no other supporting information available. Clearly any subpostmasters are free to form any association they wish, just as subpostmasters can seek to influence NFSP policy through its democratic structures. However, there is no clear evidence of any need for Post Office Ltd's to change its relationship approach with the NFSP as a body that can provide a fair and effective representation of subpostmasters views.

Background on cited cases

MP cases raised by BIS

The following information is feedback to be used to respond to BIS in relation to recent requests for information. No formal responses have been provided.

George Osbourne MP (letter to Ed Davey 26 July 2010)

This case relates to Mr Walters the former subpostmaster at Hockley Post Office in Poynton, Cheshire who was suspended following an audit at his branch in November 2007. At Audit the shortage was £14,146.37. We terminated Mr Walter's contract for services in February 2008 for falsifying accounts and failing to make good losses. At the time Mr Walters was given the opportunity to appeal the decision but chose not to do so.

The security team confirm that Mr Walters was interviewed in accordance with the Police and Criminal Evidence Act (PACE); he declined legal representation and had a NFSP representative with him. At the time of the interview Mr Walters did not express any concerns about the way it was conducted.

Some examples of the causes discovered at interview are; claiming for rejected postage labels that have no value, a mis-keyed transaction by Mr Walters, preparation of remittance pouches with incorrect values, and/or failure to enter them on the system.

The conclusion of the interview was that the loss was caused by Mr Walter's inability to follow the processes and procedures required of a subpostmaster.

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Alun Michael MP (letter to Ed Davey 20 July 2010) & Jenny Randerson AM (letter to Ed Davey 12 July 2010)

Alun Michael and Jenny Randerson are both showing interest in the same case. This is Mrs Somaskandaraja the former subpostmaster at Splott Road Post Office. Mrs Somaskandaraja was investigated for pension and allowance fraud, she was suspended in October 2004 and her contract was subsequently terminated. This case has been subject to comprehensive legal correspondence over many years and Mrs Somaskandaraja has raised a variety of issues unrelated to the Horizon challenge. The branch was closed under the Network Change Programme and Alun Michael expressed his concerns about the closure at the time but did not mention Mrs Somaskandaraja.

Keith Simpson MP (letter to Ed Davey 7 June 2010)

The letter to Mr Simpson is from Mrs Callow who is the mother of Mrs Sayer. Mrs Sayer is the former subpostmaster at Erpingham Post Office and she was suspended in January 2008 following a cash verification visit where a loss of £18997.60 was identified. Her contract for services was subsequently terminated. During her interviews regarding the case she changed her story several times and this was one of the reasons taken to pursue the legal case. She was ultimately prosecuted for falsifying accounts. She was sentenced on 15th February 2010 in Norwich Crown Court to 40 weeks in prison suspended for 2 years, with 200 hours of unpaid work to be performed. Horizon was not mentioned in any interviews or discussions with Post Office. The first time the issue was raised was in Norwich Crown Court by the defence barrister who referred to an article on a blog.

Valerie Vaz MP (Walsall South) on behalf of her constituent Mrs Jasvinder Kaur

Mrs Jasvinder Kaur Uppal is the former subpostmistress at Lazy Hill Post Office. She was suspended in July 2009 and her contract was subsequently terminated. The investigation at her branch commenced when it was discovered by a customer that electronic bank withdrawals from their accounts were being duplicated. After an interview with our investigations team Mrs Kaur Uppal admitted that she had been pretending to have a problem with the computer and making the customers repeat the transaction. This case went to court and initially Mrs Kaur Uppal pleaded guilty. Subsequently she decided to change her plea and we are waiting for a new court date to be appointed. As this information is now subject to official court proceedings it is sub judice and on this basis should not be discussed publicly.

Justice for Subpostmasters Alliance (JFSA) website cases

The JFSA website outlines 8 cases. We have tried to establish the details from the website; however in some cases the information is quite vague.

Case 1

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We think that this case is Mr Julian Wilson the former subpostmaster from Astwood Bank Post Office. Mr Wilson was arrested, interviewed and suspended. He resigned following his suspension. He admitted to inflating cash over a 5 year period to cover losses and made a full admission to false accounting. The case went to Crown Court where Mr Wilson entered a guilty plea of false accounting, was sentenced to 200 hours of unpaid work, and ordered to repay monies due and pay £3.5K towards legal costs. The repayment of the loss is still outstanding and is being pursued legally.
NB. We have correspondence with ex MP Jacqui Smith via BIS/DBERR Jan 2009 where we confirm that there has been no evidence of Horizon integrity issues.

Case 2

This appears to relate to Shirley Rayner former subpostmaster at Glentham Post Office. The loss was a combination of stock and cash, our records show a total of £2220.62. Ms Rayner resigned almost immediately to avoid termination. She refused to allow the premises to be used by a temporary subpostmaster and as a consequence the branch closed.

NB We have correspondence with Edward Leigh MP (December 2009) where we confirm that there has been no evidence of Horizon integrity issues.

Case 3

This case looks similar to the facts of Mr Rajinder Bilkhu who is currently the subpostmaster at Bowburn Post Office. We have had ongoing correspondence with Mr Bilkhu who remains as the subpostmaster at this branch. We provided support, additional training and made suggestions about how he could improve operations at his branch. There were ongoing problems with the way that he accounted for lottery scratch cards. He continued to blame the Horizon system for his errors and at one point started legal action against Post Office. He withdrew his action and as a result had to pay our costs of approximately £5k. The computer base unit at his branch was replaced in 2008 and there are no further issues with the branch that we are aware of. However, there is no evidence that the base unit was in any way a factor.

NB We have correspondence with Roberta Blackman Woods MP via BIS (December 2009) where we confirm that there has been no evidence of Horizon integrity issues.

Case 4

This is Alun Bates the former subpostmaster at Craig y don. He set up the post office victims website and is the chair of the justice for subpostmasters organisation. Mr Bates refused to accept responsibility for the poor management of his office and also admitted to rolling over losses and gains. We provided training and support which included writing off some of the losses. Eventually in 2003 we terminated his contract with three months notice due to the total break down in the relationship.

NB This case was featured on the BBC Wales programme. External Relations have also met with and corresponded with David Jones MP. He wrote to Edward Davey in his capacity as Chairman of the JFSA on 8 July 2010.

Case 5

This is Mr Ward the former subpostmaster at Rivenhall. Mr Ward was suspended in 2005 and reinstated with conditions, follow up training and support. In September 2008 a shortage of £10952.12 was discovered at audit. He was subsequently interviewed about the loss and his contract was terminated. He appealed against this

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decision and a review was conducted. The decision to terminate was upheld. The MP for this branch is Priti Patel we recently met with Ms Patel and we have discussed this case. Mr Ward appears to have links with the Computer Weekly publication where there have been several articles relating to Horizon integrity.

Case 6

We are confident that this case relates to Josephine Hamilton former subpostmaster at South Warnborough Post Office. The loss was £36,644.89 discovered on audit and the case was sent for trial at Winchester Crown Court. Mrs Hamilton agreed a deal to repay the money in exchange for us to withdraw the charge of theft. She was found guilty of 14 counts of false accounting in February 2008. She was sentenced to 12 months community service and received a supervision order. The money was repaid, we understand that the local villagers clubbed together to clear the loss.

NB This case was featured on the BBC Wales programme.

Case 7

This looks similar to the facts of Mr Ward, former subpostmaster at Priory Road Post Office. There was a loss of £12030.70 which includes £11k of personal cheques. Mr Ward was found guilty at Bristol Crown Court and sentenced to a Community Order with a requirement of 150 hours unpaid work.

Case 8

This case relates to Mrs Junor at Upper Largo Post Office branch. Accounting errors came to light in July 2007. Local support was provided to help Mrs Junor resolve the problems and the net loss is being repaid via her remuneration. Interestingly we have no calls logged from Mrs Junor regarding problems with the Horizon system over the period checked January 2009 to April 2010. The first time that Horizon integrity was mentioned was via a letter to the Prime Minister which was managed through BIS.

NB Mrs Junor sent a letter to the Prime Minister in April 2010.