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Relating to Doc. 20500126

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To: Paula Vennells, Chief Executive Officer
Re: Second Sight review into Horizon - Interim Report
Date: 2 July 2013

Background

1. Since June 2012 Second Sight Support Services Limited (**SS**) has been reviewing allegations that the Horizon system is the source of unresolved accounting shortages in Post Office branches.

2. SS has been undertaking its review in consultation with the Rt Hon James Arbuthnot MP (**JA**), and "Justice for Subpostmasters Alliance", an organisation "established to raise awareness of the issues within the Post Office Horizon system".

3. SS's review is to:

   a. review, consider and advise on whether there are any systemic issues and/or concerns with Horizon;
   b. consider both the old Horizon and new HNG-X (aka Horizon Online);
   c. consider training and support processes;
   d. be reasoned and evidence based.

   Annex 1 provides more detail on SS's review.

4. Post Office Limited, with assistance from Fujitsu, has engaged with SS, including by providing branch files and transaction data, and detailed responses on specific issues raised.

   Annex 1 also provides more detail on Post Office Limited's engagement in SS's review.

5. 49 cases have been referred to SS. SS has now completed its review into 4 specific complaints, which it will address in an interim report.

6. SS will release its interim report to:

   a. Post Office Limited on Friday 5 July 2013; and
   b. JA on Monday 8 July 2013.

7. Susan Crichton, Lesley Sewell, Alwen Lyons, Angela van den Bogerd and Simon Baker met SS on Monday 1 July 2013 at 3pm and obtained a clearer picture of SS's interim findings and timing for delivery.

8. **[[**We believe JA may feel that any interim findings which disclose any issue with Horizon should result in past criminal prosecutions by Post Office Limited being reopened and overturned.**]]**

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9. Paula Vennells and Alwen Lyons will be meeting JA on Wednesday 3 July 2013.

10. Alwen Lyons began communicating Post Office Limited's position to JA via a face to face meeting with his personal assistant Jane Walker on Monday 1 July 2013.

11. Post Office always has a right to respond to any findings. External communications consultancy Portland has been engaged to assist Post Office Limited.

The Interim Report

12. SS's Interim Report will focus on:

    a. 4 individual cases; and
    b. 2 anomalies in Horizon's operation identified by Post Office Limited / Fujitsu.

The 4 Cases

13. SS's Interim Report will focus on the following four cases:

Name	Branch	Referral – MP/JFSA	Issue	Civil or Criminal Action
Armstrong	Lepton	JFSA	Whether Horizon provides adequate and timely information during power or communications failures	****
Rudkin	Ibstock	Andrew Bridgen MP	Access to live Horizon data	****
O'Dell	Great Staughton	Jonathan Djanogly MP	Transparency of stock adjustments	****
Hall	Hightown	Mike Wood MP	Recording scratch card stock levels	****

See Annex 2 for more details of these cases.

14. SS has considered some of the evidence provided by Post Office Limited, but due to resource constraints might not have considered it all (e.g. the specific branch transaction logs).

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15. SS has also asked subpostmasters to comment on this evidence and its proposed findings for the four cases in the Interim Report.

16. We believe SS has NOT found any evidence of systemic problems with the Horizon computer system:

    a. in any of the 4 cases in the Interim Report;
    b. in any of the 6 other cases which SS has referred to Post Office Limited for review; or
    c. otherwise during its review.

The 2 Anomalies

17. We also understand SS's Interim Report will discuss two anomalies in Horizon's operation.

18. These were found by Post Office Limited and voluntarily communicated to SS, i.e. neither was identified by SS as part of its review.

19. The "62 Branch Anomaly":

    a. affected 62 branches (13 Crowns; 12 Multiples; 37 Subpostmasters)
    b. concerns a Receipts and Payments mismatch in HNG-X when discrepancies were moved into the local suspense account (i.e. the account which aggregates all discrepancies into a single gain or loss for a branch trading period).
    c. first appeared in March 2010.
    d. majority of incidents occurred between August and October 2010
    e. branch losses ranged from £777.96 down to 34p.
    f. identified by Horizon's built-in checks and balances which are designed to flag up these types of discrepancies.
    g. could have been identified if the subpostmaster had carefully scrutinised his/her Final Balance Report.
    h. 17 subpostmasters were adversely affected, i.e. had a loss attribute to their branch.
    i. subpostmasters notified in March 2011 and (where appropriate) reimbursed.
    j. subpostmasters who made a gain through the anomaly were not asked to refund this.
    k. anomaly pre-dates Separation, and therefore would have been dealt with by Royal Mail Group Legal.
    l. reason for delay in notifying subpostmasters:
        i. priority and distinction from other service issues that were happening at the time of the HNG rollout;
        ii. complexity of understanding the root cause; and
        iii. getting agreement and clarity on how best to communicate this to branches.

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20. The "14 Branch Anomaly":

    a. financially impacted 14 branches (4 Crowns; 5 Multiples; 5 Subpostmasters)
    b. concerns an error where historic accounting entries in the 2010/11 financial year were replicated in accounts for 2011/12 and 2012/13.
    c. first notified to Post Office Limited in January 2012
    d. raised by 2 subpostmasters affected by the anomaly.
    e. 5 subpostmasters were adversely affected, i.e. had a loss attribute to their branch.
    f. Post Office Limited suspended attempts to recover known losses from affected subpostmasters.
    g. subpostmasters notified on **[[2 July 2013]]**.
    h. the worst loss to a branch would have been £9,799.88. This was one of the first cases notified, so no recovery action was progressed. Other losses ranged from £113.14 down to a penny.
    i. reason for delay in notifying subpostmasters:
        i. irregular occurrence - it took over 12 months to realise that this was an error in Horizon rather than an error by subpostmaster or Post Office Limited;
        ii. very few branches materially affected.

21. Modifications have been made to rectify the 62 Branch Anomaly, and will be made to rectify 14 Branch Anomaly.

22. One of the branches affected by the 14 Branch Anomaly is within scope of the SS review (Bowness Road branch). That branch received a gain of £3,186.70 (i.e. there was no loss to the branch).

23. The anomaly first manifested itself in the Bowness Road branch after the complaining subpostmaster's contract for services was terminated for branch mismanagement and password sharing.

24. One other branch affected by the 14 Branch Anomaly (Merthyr Dyfan) was review by Post Office Limited. That branch received a gain of £160.92 (i.e. there was no loss to the branch).

25. We currently understand the branch to be operated by Costcutter, and that its employee is being prosecuted over in-branch losses of c. £49,000 (£39,000 of which has been repaid to Post Office Limited). **[[RW TO UPDATE ON 02.07.13]]**

26. In line with our duties to the Courts, we are taking steps to contact the prosecuting body so that they are aware of the anomaly and can disclose the information in any criminal proceedings as they consider appropriate.

27. None of the subpostmasters affected by either anomaly have been prosecuted over it:

Other Anomalies - "Falkirk"

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28. We are also aware of a further anomaly in Horizonwhich was been considered in both criminal and civil Court proceedings - the "Falkirk Anomaly".

29. The Falkirk Anomaly occurred when cash or stock was transferred between stock units. It was resolved in March 2006 is therefore a different anomaly to either the 14 Branch or 62 Branch Anomaly.

30. The Falkirk Anomaly was the subject of expert evidence in the "Misra" criminal prosecution, where:

    a. the defence expert asserted that its existence demonstrated Horizon had faults which could cause losses, and therefore that possibility could not be excluded in Misra's case.

    b. the prosecution expert (Gareth Jenkins from Fujitsu) asserted that it could not have been responsible for the lossesbecauseits clearly visible events had not manifested themselves in the branch records, and that it had been fixed more than a year earlier.

31. Misra pleaded guilty to false accounting,'and was convicted by jury of theft. To reach this verdict, the jury had to be satisfied that the cha'rgeswere proved beyond all reasonable doubt. Shewas sentenced td 15 months imprisdnrnent. There has been no appeal against the conviction, i.

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37. Plan A: Meet JA and try to persuade him to postpone his meeting with Second Sight on Monday 8 July 2013. This is unlikely to be successful.

38. If not successful, Plan B: We are preparing a full communications strategy and will consider rebuttal and tactics in line with an approach aimed to minimise reputational impact to Post Office Limited.

39. Do we attend the meeting with Second Sight and JA on Monday 8 July 2013?

    a. as an observer? (attending may open us up to a cross examination); OR
    b. not attend and pursue the communications strategy (Plan B above)?

40. Consider replacing or introducing a new Independent reviewer (such as one of the Consulting / Accountancy firms)?

Key Messages [[MARK DAVIES TO REVIEW AND AMEND AS NECESSARY]]

41. Horizon's size and user base –
    a. 6 million transactions processed daily
    b. over the past ten years, many millions of branch reconciliations have been carried out;
    c. Horizon used out by 25,000 subpostmasters and their staff in Post Office branches with transactions and balances accurately recorded.

42. Horizon designed to maintain the integrity of transaction data. SS has not as yet identified anything which challenges this core principle.

43. With respect to the 62 Branch and 14 Branch Anomalies:

    a. We found the anomalies and, so as to be completely open, told SS (i.e. SS didn't find them).
    b. the anomalies were detected, resolved, and we communicated the problem to sub postmasters
    c. confirm the anomlaies did not affect the integrity of the transaction data **[[FUJITSU / GARETH JENKINS TO CONFIRM]]**
    d. no Post Office prosecutions relate to these bugs
    e. say we have addressed the problem (but acknowledge it has taken time)

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ANNEX 1 – An overview of the Second Sight Inquiry process and how Post Office has interacted with it

Overview of the Inquiry process

As part of the Inquiry process, Second Sight has submitted 10 scenarios relating to Horizon to Post Office for its comments (**the Spot Reviews**). In light of its review to date and Post Office's responses to these Spot Reviews, Second Sight is now preparing an Interim Report.

In accordance with the Inquiry process set out under the "Raising Concerns with Horizon" agreement:

- Second Sight will prepare its report bearing in mind the primary need to ensure that the report is reasoned and evidence based.
- The report and any recommendations will be the expert and reasoned opinion of Second Sight in light of the evidence seen during the Inquiry.
- Second Sight will consult with JFSA, Post Office and/or any other party as it considers necessary before producing any report.
- Post Office may provide Second Sight with its own comments on any or all concerns, and on Horizon generally.
- Second Sight will consider and take into account any comments received from JFSA, Post Office and/or any other consulted party.

Post Office's activity

Post Office has provided continuous support to Second Sight and has responded to all 10 Spot Reviews.

In supporting Second Sight, Post Office has:

- Worked with Second Sight to ensure that it is addressing all issues raised.
- Thoroughly reviewed each Spot Review through the leadership of senior management.
- Consulted senior personnel inside Post Office on the issues raised in each Spot Review.
- Liaised closely with Fujitsu so that its expertise on Horizon supports every response.
- Collated and interrogated Horizon transaction records where Second Sight has referenced particular identifiable transactions.

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- Addressed any follow-up questions raised by Second Sight or Subpostmasters.
- Promptly submitted all responses to Second Sight in accordance with agreed timeframes.

Overview of Post Office's responses

Post Office remains confident that Horizon is a robust system that accurately records the activities of Subpostmasters, and maintains the integrity of transaction data.

All 10 Spot Reviews have been fully addressed by Post Office and none of them have identified any error in Horizon.

In fact, the Spot Reviews have demonstrated that Post Office's organisational processes and the Horizon system are designed to:

- Consistently track user and transaction activity in a transparent manner.
- Provide complete audit trails that allow Subpostmasters to fully review their transaction histories.
- Strictly control access to Horizon data.
- Mitigate the risk of user generated errors resulting in financial losses.
- Prevent fraud against Subpostmasters and Post Office.
- Withstand problems outside Post Office's and Subpostmasters' control such as power outages.
- Constantly monitor Horizon use and user experience for possible improvement.

It is expected that Second Sight's Interim Report will address Spot Reviews 1, 5, 21 and 22 in detail. Below is a summary of Post Office's position on each of those Spot Reviews.

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ANNEX 2 - DETAIL ON THE 4 CASESSECONDSIGHTARE PROVIDING AN INTERIM REPORTON

CASE1 - Spot Review 1 - Risks associated with power or communications failures

This Spot Review principally asks whether Horizon robustly manages the risks created when it is unable to connect to Post Office's central servers due to a power or communications failure which is beyond a Subpostmasters' or Post Office's control.

Post Office's response to this Spot Review shows that the in-branch Horizon terminal has a robust back-up and recovery system that prevents there being any discrepancies or errors in the event of a communications or power failure.

In the particular case raised in the Spot Review, the root cause of the difficulties suffered by the Subpostmaster was his failure to follow the on-screen and printed instructions given by Horizon.

A comprehensive, line-by-line review of all the Horizon transactions for the period covered by this Spot Review was undertaken by Horizon experts at Fujitsu. In light of this analysis. Post Office Limited is confident that the SPMR knew that the back-up and recovery process had actively managed the communications failure at the branch in question because:

When the transactions in question first failed to be processed. Horizon asked the SPMR whether he wished to cancel or retry the transactions. The SPMR opted to retry the transactions.

When the transactions failed again, the SPMR opted to cancel the transactions.

Horizon then automatically disconnected and printed a "disconnect" receipt that showed the transactions that had been automatically reversed.

A standard customer receipt was not produced - this would tell the SPMR that the full transaction had not proceeded.

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the basement of the building who demonstrated the ability to access 'live' branch data and directly adjust transactions on the Horizon system.

Given the amount of time that has passed, neither POL nor Fujitsu have any record of Mr Rudkin attending the Bracknell site.

Post Office and Fujitsu have attempted to establish the Bracknell visitor logs for the day in question to verify Mr Rudkin's attendance and his contact on the day, however these records are not retained for as far back as 2008.

Fujitsu have additionally made the effort to go through all email, documents and archived information to hand but do not have any information for Tuesday 19th August 2008 that would suggest they had visitors to the site.

Further review into Post Office work logs indicates that there were just three POL test managers present on site in Bracknell on the 19 August 2008. None of them have any calendar records relating to a visit by Mr Rudkin.

It has however been determined that in August 2008 the basement of Fujistu's building contained a Horizon test environment that would look very similar to a live Horizon environment. This environment was not physically or technologically connected to the live Horizon environment. It was therefore impossible for anyone in this room to have adjusted any live transaction records, though Mr Rudkin may have witnessed some form of adjustment to the test environment.

This separation of test and live environments is designed to guarantee the integrity of Horizon data.

CASE 3 - Spot Review 21 – transparency of stock adjustments

This Spot Review principally asks whether Horizon automatically makes stock adjustments and, if so, whether this could cause a subpostmaster to suffer a loss.

In summary, Horizon does not generate automatic stock adjustments. This function does not exist within Horizon.

Each member of staff at Post Office branches should have and use their own unique ID. Each subpostmaster, as a result, has a unique user ID. This requirement is detailed in the Standard Subpostmaster's Contract for Services. Section 1, clauses 5, 14 and 15 of this Contract for Services and the Horizon Online Help operational manual provide that passwords and login details for Horizon are personal and are not to be shared between branch staff. This is important to enable traceability of transactions for audit and review purposes.

On review of the Horizon transaction logs, every stock adjustment transaction inputted on 4 November 2009 at the Great Staughton branch (being the date and branch under

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consideration in this Spot Review) was a manual transaction logged against the subpostmaster user ID (JODOOI).

Even if there were erroneous stock adjustments, these adjustments could not cause a subpostmaster to suffer a loss due to the "double entry" balancing process inherent in Horizon.

Each manual instruction inputted by a subpostmaster creates a double entry (i.e. if the subpostmaster adjusts the stock level down, the cash level on Horizon will be increased by the same value as the stock). This has a balancing effect on the overall cash and stock position even if an error is made by the subpostmaster. For example, if the branch position begins in balance, an inaccurate increase to the stock level of stamps will create a shortage of stamps but it will also cause a reciprocal decrease in the cash position thereby creating a balancing surplus of cash. This shortage of stamps and surplus of cash balance out meaning the subpostmaster will not have an overall shortfall.

This double entry system is designed to mitigate the risk of user errors by automatically

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The transaction history in Horizon reflects the figures advanced by Post Office. [[This transaction history has been provided to Second Sight. **CHECK]]**

In any event, the manual REMMING-in of scratch cards by Subpostmasters has now been replaced with an automated process so the risk of a discrepancy occurring (such as the one in the Hightown branch on 17 February 2010) has been largely mitigated.

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