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Response to Second Sight Interim Report

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Second Sight Interim Report

Response of Post Office Limited

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 investigations 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. [This statement assumes that the 2 outstanding (SRs 5 and 22) will be submitted before this document is released].

In supporting Second Sight, Post Office has:

- Worked closely with Second Sight to ensure that it is addressing all issues raised.
- Thoroughly investigated 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.

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- Collated and interrogated Horizon transaction records where Second Sight has referenced particular identifiable transactions.
- 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.

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 investigate 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.
- Put integrity, fairness and subpostmasters' welfare ahead of Post Office's own interests.

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.

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.

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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.
- Following the disconnect, the SPMR was required to log back on to Horizon and duly did so.
- Following the log on, and as part of the standard recovery process, Horizon printed a "recovery" receipt which again showed the transactions that had been reversed and those that had been recovered.

The transaction logs evidencing the above conclusions have been provided to Second Sight.

Spot Review 5 – Access to live Horizon data

This Spot Review principally focusses on an assertion by Mr Michael Rudkin that during a visit to Fujitsu's site at Bracknell on Tuesday 19th August 2008, he observed an individual based in 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.

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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 investigation 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.

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 investigation 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 consideration in this Spot Review) was a manual transaction logged against the subpostmaster user ID (JOD001).

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

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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 balancing out those errors to the Subpostmaster's benefit.

Spot Review 22 – Recording scratch card stock levels

This Spot Review principally asks whether Horizon accurately records REMMED-in scratch cards.

In summary, Post Office cannot find any evidence that there is a problem with the Horizon system with regard to REMMED-in scratch cards.

National Lottery scratch cards are provided and controlled by Camelot, the National Lottery provider. In order to sell scratch cards, a Subpostmaster must (1) activate a pack of scratch cards on the in-branch Lottery terminal and (2) REM-in the scratch card stock on Horizon. "REMMING-in" a scratch card is the process whereby new packs of scratch cards are recorded on Horizon as in branch stock.

During the period being examined in this Spot Review, if subpostmasters correctly REM-in scratch cards to the Horizon system the final figures recorded in the Horizon system at the end of each day will match the final figures in the Camelot system at the end of each day for the activation of scratch cards.

On 17 February 2010 at the Hightown branch (being the date and branch under consideration in this Spot Review) there were two remittance sessions relating to scratch cards in regard to which two receipts would have been automatically produced by Horizon.

The Spot Review suggests that the Subpostmaster's printed records on this day do not match Post Office's records. However, the alleged discrepancy in the figures resulted from the subpostmaster presenting for the purposes of this Spot Review only one of the two receipts produced on this day. The transaction history in Horizon reflects the figures advanced by Post Office.

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.