
From: Chris Aujard[IMCEAEX-
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6F6FEAE19CC3F88@C72A47.ingest.local]
Sent: Wed 04/02/2015 12:19:35 PM (UTC)
To: Charles Colquhoun; [REDACTED] GRO
Cc: Belinda Crowe; [REDACTED] GRO; Rodric
Williams; [REDACTED] GRO; Patrick Bourke; [REDACTED] GRO
Tom Wechsler; [REDACTED] GRO
Subject: RE: Horizon - Update for Insurance Broker

Charles – would you be able to forward to all of us on this email the responses (if any) from the underwriters? Cheers
Chris

From: Rodric Williams
Sent: 02 February 2015 13:14
To: Charles Colquhoun
Cc: Chris Aujard; Belinda Crowe
Subject: Horizon - Update for Insurance Broker

Charles – set out below is an update on the Horizon challenges, which can be forwarded to our insurance broker.
Kind regards, Rodric

Post Office Limited – Update on “Horizon”

The Horizon System

Horizon is the electronic point of sale IT system used in all Post Office branches. It includes hardware being the counter-terminals in each branch as well as the servers and data centres. The Horizon software is a bespoke program developed by Fujitsu for Post Office. Fujitsu continue to support, upgrade and develop Horizon.

In essence, Horizon is an electronic accounting system. It tracks every transaction made in a Post Office branch. It also logs the levels of cash and stock held in each branch.

Its core principle is that of double entry bookkeeping. For example, if a product is sold for cash this would in most cases result in a reduction in a branch's stock levels of that particular product line and an increase in the amount of cash recorded as held at the branch. It should however be noted that the range of products sold by Post Office is very diverse. These include financial products, insurances, banking facilities and a number of Government services and benefits. These all sit alongside core postal services. The transaction journey for a particular product is therefore unique to that product and can be complex. Horizon also connects to a number of other systems, both internal to Post Office and external. In particular, Horizon connects to a number of external banking systems for the purposes of offering banking facilities to customers.

Each branch is responsible for logging the transactions conducted within that branch onto the Horizon system. It is also the branch's responsibility to ensure that it collects the correct level and type of payment for each product and properly provides the correct product to a customer. On a regular basis, and at least once a month, branch staff are required to undertake a reconciliation of their Horizon records. This involves undertaking a manual hand count of all the cash and stock in the branch and comparing the actual levels of cash and stock against the recorded levels in the Horizon system. On occasions, there may be discrepancies between the actual cash and stock levels and the recorded cash and stock levels. These discrepancies can be either shortages or surpluses.

There are approx. 11,500 branches in the Post Office network. The majority of these are run by subpostmasters. Subpostmasters are individuals who are contracted to run Post Office branches. They are individual contractors and

not employees. Under the standard subpostmaster's contract, a subpostmaster must account to Post Office for the cash or stock in their branches. If a shortage is discovered, the subpostmaster is required to either physically place more cash into the branch from their own funds, or settle the shortage centrally so that it can be investigated by Post Office. If the shortage is found to be the branch's responsibility, it is added to the subpostmaster's account with the Post Office and becomes a debt which the subpostmaster owes to Post Office. Where there is a surplus, the subpostmaster is entitled to keep the surplus.

In some cases, errors in branches can lead to losses (potentially very substantial). This can result in a subpostmaster's contract being terminated and/or them being sued through the civil courts to recover the outstanding loss. Where Post Office discovers evidence of criminal wrongdoing, the subpostmaster may be criminally prosecuted. Typical criminal prosecutions are for either theft or false accounting (where a subpostmaster dishonestly declares transactions or stock or cash levels within the branch which are not true). These are sometimes referred to the police/criminal prosecution service, but in the vast majority of cases, Post Office undertakes a private prosecution of the subpostmaster.

Challenges to the Horizon system

Over the last few years, there has been a small but growing number of accusations from subpostmasters that the Horizon system is unreliable. They allege that errors in the Horizon system have falsely created losses that do not actually exist. Some subpostmasters have gone further to allege that Post Office has wrongfully recovered debts from subpostmasters or wrongly prosecuted subpostmasters based on unreliable information from the Horizon system. It should be noted that the branch account and transaction records from the Horizon system often form the fundamental foundation of any civil recovery or criminal prosecution.

This discontent ultimately led to the formation of a pressure group called the Justice for Subpostmasters Alliance (**JFSA**). The JFSA managed to garner interest from a group of MPs lead by the Rt Hon James Arbuthnot MP. Post Office, as a company which is beneficially owned by the UK Government, came under increasing pressure to investigate and resolve JFSA's and other subpostmasters' allegations about the Horizon system. This ultimately lead to Post Office setting up an independent inquiry into the Horizon system.

The Inquiry is a private inquiry (it is not established under any law or action of Parliament) and was set up in June 2012. It is led by a company called Second Sight Support Services Limited (who are independent forensic accountants and fraud examiners). The Inquiry's scope was agreed with Second Sight, JFSA and James Arbuthnot MP. Second Sight was tasked with investigating whether there are any systemic issues and/or concerns with the Horizon system, including its training and support processes.

Second Sight rendered its Interim Report on 8 July 2013. Its preliminary conclusion was that it had so far found no evidence of system wide (systemic) problems with the Horizon software. However it did highlight a number of areas in relation to wider support and training around the Horizon system that required further investigation.

Creation of the Mediation Scheme

Although the Interim Report indicated that the Horizon system was fundamentally sound, it did not give Post Office a completely clean bill of health. This therefore led to increased pressure from some MPs on Post Office and increased activity by JFSA.

The inconclusive findings of the Interim Report led to the establishment of a Mediation Scheme (in September 2013) as a way to better understand and ideally resolve the individual complaints of Subpostmasters. The structure of the Scheme is that:

- (i) Subpostmaster submits details of their complaint
- (ii) Post Office investigates the complaint
- (iii) Second Sight independently reviews and reports on Post Office's findings

- (iv) Where appropriate, Post Office and the Subpostmaster mediate to try to find a resolution

The Scheme is overseen by a "Working Group" comprising Post Office, Second Sight and JFSA. An ex-Lord Justice of Appeal, Sir Anthony Hooper, has been appointed as the Working Group's independent chair.

There were 150 applications to the Scheme. Post Office has investigated all applications, and Second Sight is approximately half way through its review of the cases. Post Office has to date resolved 27 applications, either directly or through mediation.

Current position

Post Office's investigations have found that the vast majority of Subpostmasters' complaints lack merit. Post Office has not found any systemic failing in its business processes or the Horizon system, and there is no evidence that the conviction of any Subpostmaster is unsafe.

The JFSA has recently renewed its attempts exert political and media pressure on Post Office and disrupt the Scheme, presumably because the Scheme is not delivering the outcomes it seeks (e.g. substantial compensation payments to applicants). This led to a number of MPs withdrawing their support from the Scheme and a "Westminster Hall" debate in Parliament on 17 December 2014 in which Post Office faced severe (but unfounded) criticism.

Subpostmasters, through JFSA, have also renewed threats of legal action against Post Office, engaging a specialist class action law firm, Edwin Coe LLP, to investigate matters. As yet however Edwin Coe LLP has not contacted Post Office.

In what appears to be a coordinated effort, the Criminal Cases Review Commission has also contacted Post Office with a statutory request for disclosure of documentation, which Post Office is addressing.

Finally, Post Office has also been called to answer questions before the Business, Innovation and Skills Select Committee on 3 February 2015. Paula Vennells, CEO, and Angela Van Den Bogerd, Head of Partnerships, will be attending on behalf of Post Office.

END

