

Initial Complaint Review and Mediation Scheme**Post Office Preliminary Investigation Report**

Branch Name:	Rugeley	Branch Code:	2642425	Case Number:	M118
Applicant Name:	Carl Page	Status of Case:	Mediation Application	Date of Appointment:	01 April 1997
Executive summary					
<p>The Applicant was appointed as Subpostmaster of Rugeley Post Office on 1 April 1997 (Doc 003). Following an audit on 14 January 2003 which revealed a shortage of £645,345.18, the Applicant was precautionary suspended which led to his contract being terminated with an effective date of 14 January 2003.</p> <p>The Applicant's claim focuses on lack of training and adequate support, defects in Horizon, problems with bureau transactions and accounting procedures and issues relating to criminal proceedings taken against him. The Applicant makes no specific financial claims in his application but does refer to the loss of his investment which was over £100,000.00.</p> <p>Findings</p> <p>The main focus of the Applicant's complaint relates to the use of the Forde Money Changer which was used alongside but independent of Horizon. It was used to convert sterling into currencies bought and sold over the Post Office Counter. Post Office can confirm that the process at the time was that the Applicant or a staff member would be required to manually input the daily rates for all currencies bought or sold by Post Office, into the Forde Money Changer from a fax delivered daily to the branch. Further, special (better) rates were authorised if, for example, the branch was situated near a bureau competitor. From the evidence available, the significant loss revealed by the audit related primarily to the Applicant selling foreign currency at rates below the daily approved rates supplied by Post Office.</p> <p>As part of this review, Appendix D of tab 4 of the Applicant's Case Questionnaire Response (CQR), described as a "spreadsheet of Euro transactions", was requested from Second Sight who have been unable to provide the document, having explained it had not been supplied by the Applicant. Without this document, and given the very limited data available to Post Office on this case, Post Office is unable to comment fully on the bureau transactions (which were manually inputted into Horizon).</p> <p>There are no records to substantiate the Applicant's claim that he did not receive sufficient training to undertake his role. The Applicant's reliance on his first wife to operate the branch was not a matter for Post Office to query following her departure, as the Applicant himself had been appointed as Subpostmaster. Further, after she left there are no records of any requests for additional support or training logged with Network Business Support Centre (NBSC).</p> <p>Although records of calls made to the Horizon service desk (who deal with technical faults with Horizon) are not available, the NBSC logs have been sourced dating back to April 2000. There are several calls logged relating to the use of Horizon and there is one referring to a</p>					

possible system fault but these do not correlate with the discrepancies reported.

It is Post Office's view that the subsequent security investigation and criminal proceedings were conducted fairly and in accordance with the strict rules and procedures in place. There is no indication that the Applicant was treated unfairly.

Other issues raised are responded to in the body of this report.

Conclusion

Due to the Applicant's tenure coming to an end more than 10 years ago, there are very limited records pertaining to the case available to Post Office. Post Office has established what is most likely to have occurred through discussions with Post Office employees who were involved with this branch at that time and are still within the business.

Based on the records that are available (including conversations with Post Office employees dealing with the case at the time and by referencing NBSC call logs) it is clear that Horizon is not at fault for the losses suffered at the branch. This is further supported by the Applicant's admission of theft.

The Applicant has stated that he willingly entered preferential rates into the Forde Money Changer to allow a frequent purchaser of large sums of foreign currency, **GRO** to obtain currency at a rate below those approved by Post Office. Post Office understands from these conversations that a third party raised an issue with the Police as they were concerned at the volume of currency being exchanged by **GRO**. This suggests that the currency was not being used abroad as one would normally expect foreign currency purchased would be. The Applicant states his volume of sales were due to the preferential rates that were available at the branch to **GRO**.

It therefore appears that the incorrect selling of foreign currency was the cause of losses at the branch. Regardless of whether the Applicant acted fraudulently or innocently, the Applicant is liable for the loss caused by selling foreign currency at rates below those prescribed by Post Office as this amounts to a failure to follow Post Office's procedures.

The Applicant states that he was given authority to provide preferential rates by his Retail Line Manager, Mr Geraty. Mr Geraty is no longer in the business and so Post Office has been unable to obtain his comments and therefore Post Office are unable to substantiate these claims. Mr Geraty had over 25 years' experience in Post Office and many years' experience of supporting the post office network. There is no evidence other than the Applicant's claim that Mr Geraty would have advised the Applicant of the correct Post Office procedure in relation to preferential bureau rates for bulk purchases of currency.

As a result of the above issues and Post Office's investigation at the time, the Applicant was prosecuted. The Applicant pleaded guilty at Stafford Crown Court to a single indictment of: 'The Defendant stole £94,000.00 from the post office having begun to do so on return from holiday in August 2002. A guilty plea entails a complete admission of the facts alleged in the count on the indictment pleaded guilty to unless qualified by a written basis of plea. The remaining deficit of £188,000.00 may have been the result of incompetent accounting or possibly theft by other person(s)'. The Applicant was sentenced to a custodial sentence of two years for this offence and served nine months in prison, three months on a tag, and was

on licence until September 2009. Post Office maintains that this conviction was correct and that the Applicant stole at least the £94,000 that he pleaded guilty to.

The Applicant's complaint

The Applicant's initial complaint was received via Second Sight on 15 November 2013. A SLO1 was sent on 26 November 2013 and a CQR was accepted by Post Office on 10 April 2014.

The issues raised by the Applicant are as follows:

Failure to provide adequate training and support

- The Applicant states that he and his wife took over the branch in February 1997 as a business partnership, with the Applicant assuming the role of Subpostmaster. The Applicant says that he and his wife were given two weeks' 'on the job training' at Wolverhampton Post Office and were expected thereafter to manage 'what was in effect a combination of a small bank, government office and shop in strict accordance with the Post Office's internal rules and regulations'.
- A Bureau de Change (Forde Money Changer) was installed in 1998. The Applicant cites that he, his wife and one member of staff received approximately three hours of onsite training from a member of Post Office staff, and they were given an Operations Manual.
- The Applicant and his wife separated in 2000 and divorced in 2001. The Applicant states that 'The Post Office raised no concerns or issues with the new state of affairs nor did they enquire if the Applicant was coping with the business working alone'.
- The Applicant says that after his wife left, he relied on his staff, and at this point the Applicant received correspondence from the Post Office regarding inconsistencies found at audit, the level of errors, failure to cross sell and failure to despatch excess cash. Despite this the Applicant received no further training.

Defects in Horizon

- The Applicant states that Horizon is defective in that it relies wholly on manually input figures and that there were numerous performance issues for which Post Office failed to provide any remedies.

Bureau Transactions

- The Applicant questions the sum of £282,000.00 shortage in the AM stock unit.
- The Applicant claims he was misled by Post Office in regard to the restrictions which applied to the exchange rate that could be levied on bulk foreign exchange transactions. In particular, the Applicant states that the Retail Line Manager (RNM), Mr Geraty, 'suggested that Mr Page could sell currency at a level provided that everybody gained'. He states that Mr Geraty also told the Applicant 'that he could

provide favourable exchange rates for someone buying in bulk as long as they were less than the buyback rate'. (NB the exchange rates would need to be more than the buyback rate to favour the purchaser)

- Post Office did not question the acceptance of cheques for these transactions.

Issues related to criminal prosecution

- The Applicant states that Post Office had insufficient evidence to indicate that he was guilty of theft and hence these allegations should not have been made.
- The Applicant raises the issue of the amount claimed by Post Office changing from an initial £645,000.00 to £282,000.00 and then a final sum of £94,000.00.
- The Applicant states that Post Office froze his assets and "successfully undermined his efforts to sell the branch". The Applicant took on a loan to 'purchase' the Post Office initially.

Case Review Actions

Summary of the information collated by Post Office

Information available from Post Office records:

The case review undertaken covers the period 12 April 2000-to the date of this report.

Due to the timescale of the case many records are unavailable however the following documents have been reviewed. Post Office contacted those employees still in post who may have had involvement with this case to ask for their assistance Where their recollections have been used these have been noted as such within this report. Employees' recollections are however limited due to the passage of time.

Information area	Information provided with this response	Information obtained from CQR	Information not available due to dated nature of case
Transaction Corrections		X	
Network Business Support Centre (NBSC) logs	X (12/04/2000-16/01/2003)		
Record of audit		X	
Security reports			X

Training/Intervention Records			X
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NBSC CALL LOGS BETWEEN 12 April 2000-16 January 2003 (Doc 002 Refers)

Records indicate that:

231 calls were recorded between 12 April 2000 – 16 January 2003 broken down as follows:

2000 – 64 calls

30 calls refer to transactional knowledge for customer service, 15 were requests for telephone numbers or addresses, 6 refer to remittances or stores and stock ordering, 6 refer to balancing and error notices, 1 was a request for Retail Line Management contact, 1 refers to branch closure, 1 is a call from Post Office regarding performance issues, 1 is a complaint from the Applicant regarding the time he has waited for a NBSC response.

3 refer to Horizon

- 14 April 2000 Jane reports she cannot log out
- 18 April 2000 Applicant reports a screen freeze
- 17 June 2000 Margaret reports 'system busy' for 20 minutes

2001 – 80 calls

46 calls refer to transactional knowledge for customer service, 16 calls from Post Office regarding performance issues, 8 were requests for telephone numbers or addresses, 5 refer to remittances or stores and stock ordering, 4 refer to branch closure, 1 refers to identification verification of visitors.

2002 – 79 calls

24 calls refer to transactional knowledge for customer service, 24 calls from Post Office regarding performance issues, 17 were requests for telephone numbers or addresses, 5 refer to remittances or stores and stock ordering, 4 were requests for Retail Line Management contact, 2 refer to balancing and error notices, 2 refer to identification verification of visitors, 1 refers to branch closure.

2003 – 8 calls

3 calls refer to transactional knowledge for customer service, 2 refer to branch closure, 1 was a request for telephone numbers or addresses, 1 refers to identification verification of visitors, 1 was a request for Retail Line Management contact.

Record of Audits

26 January 2001: the only record is a call logged with NBSC by staff to verify identity of auditor at branch.

9 November 2001: Audit of branch revealed a shortage of £811.44

27 June 2002: Audit of branch revealed a shortage of £8,335.63. Whilst there is no exact breakdown of the shortage revealed, records show that the majority of the loss £8,016.15 was found in stock unit AM.

There is also a print out of the suspense account produced at 17:21:46 included within the CQR (the suspense account is a holding account with Horizon). There are two entries recorded: a cash shortage of £145,873.74 lodged from the AM stock unit on 27 June 2002 and a cash surplus lodged by BU stock unit on 27 June 2002 of £191,192.95.

The shortfall is therefore likely to be calculated as:-

BU stock unit surplus	£191,192.95
AM stock unit shortage	£145,873.74
Other shortages	£53,654.84
Audit Result	£8,335.63

This was raised by the Applicant at the meeting held between him and his RLM and Contract Advisor on 3 July 2002, where it was Post Office's view that the discrepancy was possibly in stock unit 03 (although no further details are given) whilst the Applicant believed it related to transfers between stock units.

The following procedural weaknesses in the branch were also reported:-

1. Officer In Charge (OIC) used the Applicant's log-in to access Horizon
2. OIC only had clerk level access therefore was unable to produce Cash Account (C/A)
3. No provision made for staff to produce C/A in Subpostmaster's absence
4. Three stocks not rolled over on Wednesday, one of which would have been used on Thursday which would have been week 14. (Stock units not rolled on or prior to Wednesday 26 June 2002.)
5. Postage credit given to customers
6. Bureau transactions not entered daily
7. Lottery transactions not entered daily.

These were discussed with the Applicant at the meeting on 3 July 2002, the details of which are included within the body of this report.

The CQR (Tab 4 page 20) makes reference to an audit on 31 July 2002 but there are no records to support that an audit of the branch took place on that day. Post Office assumes this to be a typographical error for 3 July 2002.

14 January 2003: Audit of branch revealed a shortage of £645,345.18. Paperwork supplied by the

Applicant as part of his submission shows the final account discrepancy as £645,345.18.

It is not recorded why the amount changed when the case went to court or why, if as the Applicant claims, it reduced to £94,000.00. However the Applicant's CQR submission contains the following breakdown of the shortfall.

5 Cheques seized by Police on 13 January 2003 (the evening prior to the Audit) £638,675.65

Differences in the currency and sterling on hand £3,583.14 (-)

AM stock unit shortage £3086.39 (-)

£645,345.18 (-)

The CQR submitted states that on the evening of 13 January 2003 (the night prior to the audit) Post Office security investigators and Police Officers attended the premises of Rugeley Post Office and conducted a search of the branch including the foreign currency till.

The 5 Cheques (referred to above) were seized, as part of the search of the foreign currency till. They were all drawn from account 71392875, RPX Recycled Plastics Ltd, summarised as follows:-

Cheque Number	Cheque Date	Amount (£)
100148	2 January 2003	278,181.82
100159*	13 January 2003	100,000.00
100160*	13 January 2003	100,000.00
100161*	13 January 2003	100,000.00
100162*	13 January 2003	60,493.83

The four cheques annotated * above total £360,493.83 which equalled the value of foreign currency receipts found on **GRO** (a regular customer of large foreign exchange transactions at the branch) at the time of his arrest.

One possible explanation is that the bulk of the shortage related to cheques held at the branch which were disallowed for the purposes of the audit. These cheques would have been sent for processing and if they cleared would reduce the amount due to Post Office by the Applicant. It is highly likely that some of the cheques did 'clear' whilst others were returned 'refer to drawer.'

Whilst no records exist in relation to this, this had happened on previous occasions with **GRO**

GRO The amount is likely to have decreased as a consequence of part recovery of the sum due to Post Office.

The CQR further states that during the audit on 14 January 2003 a balance snapshot (a Horizon

report which shows the amount of cash, currency and stock held within an individual stock unit) was produced for the 'AM' stock unit which stated that a sterling equivalent of £282,000.00 of foreign currency was held within that unit. There was no foreign currency physically found in the stock unit by the auditors on the day of the audit. It was initially presumed therefore that cheque number 100148 for £278,181.82 was payment for this 'missing' foreign currency. This was later disregarded as it was revealed that cheque number 100148 was actually presented to the branch to cover three previous cheque payments made by **GRO** in December 2003 which may have been returned 'refer to drawer' due to insufficient funds in the bank account. (Whilst December 2003 is referred to in the Applicant's complaint Tab 4 point 6.13 it is assumed this should be December 2002.) .

It should be noted that the cheque number 100148 was dated 2 January 2003. This suggests it had been held in the branch for 12 days. At that time Subpostmasters were required to despatch cheques every day of the week except Friday and Sunday. This enabled cheques to be cleared promptly and earn maximum interest for Post Office.

When the Applicant was asked for an explanation of cheque number 100148 he confirmed that it was presented by **GRO** to cover the three cheques that had "potentially bounced" but the Applicant states he was given this cheque at the start of January 2004. (Whilst January 2004 is referred to in the Applicant's complaint Tab 4 point 6.15 it is considered this should be January 2003 as by January 2004 the Applicant had not worked in the branch for twelve months and the cheque presented would have been six months out of date).

Thus the conclusion was drawn that the £282,000.00 was an unidentified loss in the 'AM' stock unit and formed the basis for the theft charge made against the Applicant.

Post Office is unable to determine the exact circumstances of these events given the limited records available but the following facts can be stated with certainty:

- a) Cheques were acceptable as a method of payment for foreign currency transactions at Post Office branches during the indictable period (1 March 2002 to 14 January 2003) but should only be accepted when accompanied by a valid cheque guarantee card and the cheque amount should not exceed the value of the cheque guarantee card. Clearly the Applicant exceeded this on multiple occasions by a wide margin.
- b) A special rate for foreign currency transactions over £5,000.00 could be obtained by contacting First Rate Travel Services by telephone at the time of the transaction.
- c) Other special rates (offers) were detailed on the fax sent every morning (except weekends) to the branch; these rates were manually input to the Forde Money Changer.

The Forde Money Changer which the CQR states was installed in the branch in 1998 was a standalone terminal not linked in any way to Horizon. It performed various functions and produced daily and weekly reports to enable the Operator to buy and sell foreign currency to customers, to record sales of foreign currency and to provide print outs so that sales and holdings could be verified and transferred to Horizon.

Daily on request the Forde Money Changer would produce a Command 3 printout. This report

contained the transaction summaries for the day and closing balance for each currency held in the branch.

Weekly on request the Forde Money Changer would produce a Command 10 printout. This report would detail the amount of each currency held and details of any revaluation and commission totals for the week.

The CQR states that when the Forde Money Changer was installed "it involved having to set aside a separate room which was used solely for Bureau de Change". Discussion in connection with this report with the RLM who still works with POL (albeit in a different role), confirms that the Applicant did build a separate room within the Post Office designated area. This room was used to conduct all of **GRO** foreign currency transactions which were consistently completed before the branch opened daily in the privacy of this room away from the other members of staff. Post Office assumes that all foreign currency transactions were conducted from this separate room due to the Forde Money Changer being located there. The Forde Money changer terminal was approximately 18 inches by 12 inches and about 6 inches high; there was no requirement by Post Office to build a new room as the Applicant claims.

The CQR lists a number of weeks when the amount of foreign currency declared on Horizon was different to that reported as on hand on the Forde Money Changer. The discrepancy between these figures increased over several weeks prior to the audit of 14 January 2003.

The variances are detailed below:-

Week Ending	Foreign Currency Declared (£)	Forde Money Changer (£)	Difference (£)
04 September 2002	196,292.24	7,292.24	189,000.00
19 September 2002	299,754.23	102,754.23	197,000.00
25 September 2002	297,790.91	100,790.91	197,000.00
16 October 2002	319,841.32	104,841.32	215,000.00
06 November 2002	373,929.97	148,929.97	225,000.00
18 December 2002	370,591.17	100,591.17	270,000.00

As stated above there is no direct link between Horizon and the Forde Money Changer and it is possible to make inputting errors but the level of these errors is so significant (in terms of frequency) that it is unlikely that human error could account for them all. It is stated in the CQR that it was common practice that sales of foreign currency to **GRO** were processed via the Forde Money Changer but not collected or presumably paid for until several days later (although the CQR fails to record this latter point). This was contrary to Post Office procedures as all transactions have to be settled at the time of the transaction with an acceptable method of payment for foreign currency purchases. At that time this would have been either cash, cheque

supported with a valid guarantee card up to maximum limit of the card, bankers draft, building society cheque or debit/credit card or a combination of these.

One possible cause of these differences is that foreign currency holdings were being inflated to conceal the sums being taken by the Applicant. It is noted that the CQR states that the difference had risen to £282,000.00 by 8 January 2003 which is just days before the audit on 14 January 2003. It reported a snap shot figure of sterling equivalent of foreign currency in the 'AM' stock unit of £282,000.00 which was not present. This also being the sum forming the basis for the theft charge to which the Applicant pleaded guilty. (Doc 001 refers)

At the audit of 14 January 2003 a cheque was on hand that had been held in the branch for 12 days (see below). One of the most probable explanations also suspected by the officers dealing with the case was that the practice of processing a transaction without taking payment or taking payment but not despatching the cheque received for processing at the clearing house was being adopted. The second option would have allowed [GRO] to exchange the currency purchased for cash at another bureau outlet and either pay the money into his bank which allowed the cheque(s) to clear or he simply returned to the branch and refunded the cheque(s) with cash.

Further there was little point in processing the transaction prior to [GRO] attending at the branch as these transactions did not take long. The only timely element would be counting out the physical cash to the customer given the large sums involved, which would have had to be completed whenever [GRO] attended as the practice is to do this in front of the customer.

It was also suspected by the officers dealing with the case at the time that [GRO] sold currency back to the branch for the Applicant to resell. When the matter went to court the Applicant's defence team raised the issue of the volume of currency sold to [GRO]. They suggested this exceeded the total amount of currency supplied to the branch during the Applicant's period of tenure. If [GRO] had sold currency back to the branch, then this is one possible explanation to account for the difference.

In the report produced by Mr Liddell on page 4, it is stated that the Applicant had sold 242,000 Euros more than could be accounted for taking the opening balance remittances (currency delivered to branch) in and sales of foreign currency into account. This is consistent with the scenario whereby currency was sold back to the branch by [GRO]

Response to issues raised by Applicant

Failure to provide adequate training and support

Issue 1 Post Office failed to train the Applicant adequately or at all in relation to Horizon and foreign currency transactions

The earliest records that Post Office holds in relation to training packages for new entrants is that available to new Subpostmasters appointed in 2001. At that time the package consisted of two days pre transfer training, 10 days on site training and support when the Subpostmaster completed the next balance. It is likely that a very similar package would have been made

available to the Applicant on appointment in 1997.

The training package in place in 1997 would have been in Post Office's view adequate for the role as Subpostmaster.

Although there are no records to support this specific installation, when the Forde Money Changer was installed in 1998 training would have been delivered on the use of the machine and foreign currency transactions. Training material would have been supplied to the Applicant as this is standard procedure when a new transaction is introduced. The standard training package considered necessary would have been delivered and if at any time the Applicant felt that additional training was required this could have been requested via his Retail Network Manager.

The branch as a former Crown (directly managed by Post Office) would have used the ECCO system which was a partly computerised system and was the forerunner of the Horizon system in use today. It is therefore Post Office's view that the grounding provided by ECCO would have greatly assisted the transition to Horizon on its introduction.

In 1995 Post Office commissioned the Horizon system from the company known as Fujitsu Services Limited, after the initial pilot there was a rolling programme to install Horizon at all Post Office branches.

On 15 December 1999 the Network Business Support Centre (NBSC) was established to help and support Subpostmasters and their staff with customer transactions and navigation of Horizon.

NBSC records indicate that a Horizon Field Support Officer (HFSO) was at the branch on 12 April 2000 which would suggest that this is the date that the branch migrated to Horizon. A balancing book was requested for this branch by the HFSO on this date. The standard training for Horizon was, prior to go-live, an evening event to provide Subpostmasters and staff with an overview of the system. Each member of Post Office staff was also given one day's classroom training on Horizon plus an extra half day for supervisory staff who were involved with the office balance.

A Horizon Field Support Officer (HFSO) was allocated to be on-site for the first two days of go-live to assist Subpostmasters and staff with navigating the screens when serving customers and to support Subpostmasters in branch with transactional and accounting procedures.

The HFSO was also due to attend on the day of the first balance following the go-live date. Training Manuals and workbooks were supplied to each branch.

Due to the time elapsed there are no records available to confirm completion of this training at this or any other branch at that time.

The Applicant states that he and Mrs Page separated in 2000 and divorced in 2001. The Applicant states in his application that his wife tended to deal with the accounting side of the business as she was much more adept at this than he was. As the Applicant was appointed three years prior to these events and had received initial training this would not be of concern to Post Office and it would be for the Applicant to raise if he required more training as a result of the loss of his wife's assistance in the branch.

The Applicant's reliance on his former wife was not raised at the meeting held on 3 July 2002 attended by the Applicant, the Retail Line Manager and the Contract Advisor to discuss performance and a number of written warning letters sent to the Applicant.

The Applicant cites that Post Office recommended additional training to include the opportunity to shadow another Subpostmaster but failed to make good this offer.

Due to the time elapsed there are no records of additional training delivered to the Applicant. It is accepted that the case questionnaire response (CQR) contains notes of an interview held on 3 July 2002 and there is reference to the Applicant shadowing a "good branch Manager": there are no records to indicate if this activity ever took place. There are no records of any calls made by the Applicant to NBSC to follow this matter up. As the meeting was held six months prior to the audit of 14 January 2003 which led ultimately to the termination of the Applicant's contract for services it is Post Office's view that had the Applicant been so minded he could have taken it upon himself to arrange a visit to another branch or contacted NBSC to request one. The fact that the Applicant states that this did not happen would indicate that he was not so minded.

Defects in Horizon

Issue 2 There are defects in Horizon in that it relies wholly on manually input figures.

Post Office has extensive controls spanning systems, processes, training and support. Horizon, like many systems, depends on the quality of entries by the Users.

Horizon relies on all Users being required to log on with a User ID and password, leaver/joiner controls for allowing and removing access and the person in charge of the branch setting the appropriate level of access for different users.

The integrity of Horizon is founded on tamper proof logs and all data entries are tagged against the log on ID of the user. There are systems and support in place for branches to maintain comprehensive, accurate and timely accounts and transactions can only arise in Horizon from actions of the Subpostmaster or their staff. Horizon operates on a "double entry" accounting basis and maintains a balanced trading position.

The Subpostmaster is responsible for ensuring that he and his staff record transactions and methods of payment promptly and accurately. They have the tools and they are encouraged to do physical checks. Mistakes do occur (intentionally or unintentionally) and this is when supervisory checks are important in the branch and where detection processes from central teams would come into play. E.g. cheques remitted to processing centre are verified on receipt and any errors reported back to the branch by the issuing of a transaction correction from the Financial Service Centre (FSC).

Once errors are established the NBSC would have provided support on how to address and deal with mistakes and any issues arising out of the balancing procedure. Prior to the introduction of the NBSC the Retail Network Manager would have provided similar support.

It is refuted by Post Office that manual inputting of figures was a defect in the system as most commercial organisations, supermarkets etc. relied on manual inputting prior to the introduction

of electronic point of sale (EPOS). As with all human interaction mistakes can happen but processes and procedures were in place at that time to assist the Applicant with rectifying them.

The Applicant asserts that there were numerous letters sent by Post Office relating to performance, but that they failed to provide remedies.

NBSC call logs indicate that the Applicant received the following number of calls from the NBSC regarding performance issues: 1 in 2000, 16 in 2001, and 24 in 2002.

Post Office does not hold any records of the actual issues raised with the Applicant due to the time elapsed. It is noted that there are numerous performance related letters included with the Applicant's Case Questionnaire Response (CQR) and these are not disputed. It is the responsibility of the Subpostmaster to question any notification of errors sent to him that he does not understand. The aim of these notices was to highlight errors made at the branch as these could cause discrepancies to the branch and/or inconvenience to Post Office clients (e.g. National Savings and Investments or DVLA) and customers. Once highlighted the expectation was that this would prevent future errors of this type. Errors made have the potential to damage the Post Office's reputation with our clients and customers. There is also the cost involved of resolving the error made.

A meeting was held which the Applicant attended along with his Retail Line Manager and the Contract Advisor on 3 July 2002 to discuss the Applicant's poor performance and the written warning letters sent to the Applicant requiring immediate improvement. The Applicant accepted that he had failed in his responsibility to ensure that the branch was operating properly, he proposed to appoint an Office Manager and have more staff on duty at the end of the day to ensure that daily work was properly summarised and checked. The Applicant also states that a staff member will be given the responsibility for bureau which he would then check. The Applicant "accepted that there had been inadequate checking procedures in place up to now" (referring to the *"Rugeley MSPO – notes of interview held 3rd July 2002"* enclosed at Tab 1 of the CQR).

The Retail Line Manager at the same meeting stated that his main focus was sales growth via customer service, and therefore transaction accuracy was not his main forte. He suggested that the Applicant prepare a list of what he needed and then go to a branch office on a staggered basis to obtain his requirements. There are no records to indicate if the Applicant did this.

There was other support available to the Applicant at the time through three main channels:

- 1) Operational Instruction Manuals (paper based copies held in branch and updated monthly, Operational Focus weekly updates and guidance on transactions and services and Memoview-messages direct from the Horizon terminal once installed)
- 2) the Network Business Support Centre (NBSC) after 15 December 1999 (a telephone helpline) and
- 3) Network line management. The Applicant refers to a Mr Geraty, who was the Applicant's Retail Line Manager. Mr Geraty left the business in 2011 having completed over 39 years' service

and was very experienced in his role.

Records of NBSC logs have been examined for the period 12 April 2000-16 January 2003. Whilst the records are not exhaustive due to the time elapsed they do cover the indictment period of 1 March 2002 to 14 January 2003. During this period there were no calls logged requesting additional training by the Applicant or his staff. Records show that during the period examined there were six requests logged with the NBSC for the RNM to contact the Applicant. Records do not indicate the reason for these requests.

As it was the responsibility of the Applicant to access the support available to him Post Office reasonably expected the Applicant to do this.

Bureau Transactions

Issue 3 The Applicant questions how the alleged shortfall in the AM stock unit built up over a period of time and questions the basis on which Post Office alleged that the shortfall was "hidden" in the foreign exchange stock unit on Horizon

As part of this review Second Sight were requested to provide Appendix D of tab 4 of the Applicant's CQR (described as a "spreadsheet of Euro transactions"). Post Office understands that this has not been provided by the Applicant to Second Sight and Post Office no longer holds any audit or investigation records for this case. Post Office is therefore unable to comment on this particular issue. It should however be noted that the Applicant pleaded guilty to a single charge of 'between 1 March 2002 and 14 July 2003 stole £282,000.00 in money belonging to Post Office Ltd (Contrary to Section 1 of the Theft Act 1968)' on the basis of a plea agreed as follows that 'The Defendant stole £94,000 from the post office having begun to do so on return from holiday in August 2002. The remaining deficit of £188,000 may have been the result of incompetent accounting or possibly theft by other person(s)' (Doc 001 refers).

Post Office purchased currency from First Rate Currency Services (FRCS). For every £100.00 of currency purchased Post Office would pay £101.00 to FRCS. On purchase Post Office would apply a retail buy rate to the currency which would devalue the currency by approximately 6% of the purchase price. The currency would be held at the retail buy rate until it was sold to the customer.

On receipt of foreign currency from Post Office in branch the Applicant or his staff would enter the amount received into the Forde Money Changer. The Forde Money Changer would hold the currency at the retail buy rate until it was sold to the customer at which point it would convert it to the sell rate as notified by the daily fax referred to above. This would create a profit on the transaction.

As part of this review, the Product Proposition Manager, who was involved with the Applicant's initial trial, was able to confirm that the Applicant used the Forde Money Changer to enter rates below the retail buy rate when he was selling currency to: GRO (See explanatory calculation below.)

The Applicant states he was misled by Post Office with regard to the restrictions on foreign exchange transactions and in particular the exchange rate which could be levied on bulk transactions.

It is accepted by Post Office that preferential rates for larger foreign exchange transactions were utilised at this time and to the current day. The level of the preferential rates and how the rate was determined are the critical factors here. As part of this review training officers who had experience of the Forde Money Changer were contacted. The procedure was that a fax was received each morning in branch on a fax machine supplied by Post Office for this purpose. If there was a special rate it was annotated on the fax. The rates including any special rates were input to the Forde Money Changer manually. The faxes were required to be retained in branch for two years.

A procedural audit of the branch's travel services-bureau de change was conducted on 9 November 2001 i.e. outside the indicted period. Twelve faxes were examined and no procedural weaknesses were recorded. Control objective 7 SP of the compliance audit relates to special commission transactions and records that special transactions procedures including rates are discussed with branch personnel (this would typically be the Subpostmaster or the Officer in Charge.) It is recorded that there were no actual transactions to verify so compliance would have been judged on the responses obtained during questioning. It was confirmed that all SP rate transactions were authorised by the outlet Manager (i.e. the Applicant or the staff member acting as Officer in Charge on any particular day).

There are inconsistencies in the CQR submitted by the Applicant as on page 4 it refers to Mr Geraty having advised the Applicant "that the selling rate should always be higher than the buyback rate so that POL would still make a profit". Mr Geraty is no longer in the business and so Post Office has been unable to obtain his comments and therefore Post Office are unable to substantiate these claims.

In fact the buyback rate must be higher than the selling rate as the example below highlights:-

£1,000.00 of Euros are purchased by a customer at a selling rate of 1.22. This would mean the customer would receive 1220 Euros.

1220 Euros are bought back from a customer at the buyback rate of 1.35 which would mean the customer would receive £903.70.

Therefore the selling rate of 1.22 (used in this example) is and must be lower than the buyback rate of 1.35 applied.

The Applicant states that Post Office should not have accepted cheques for the bureau transactions performed in the branch and Post Office profited from the transactions undertaken.

Cheque payments for bureau de change transactions were acceptable during the period of the Applicant's tenure. Cheques should only be accepted for bureau de change transactions if supported by a valid cheque guarantee card. As it would appear that the amounts involved were far larger than any cheque guarantee card limit these cheques were accepted by the Applicant incorrectly. It would appear if the timescales quoted by the Applicant are correct that this

irregular cheque acceptance practice adopted was conducted over a considerable period of time. Cheque acceptance procedures would have been part of the initial training package delivered.

Thus Post Office was deprived of potential profit for some of these transactions. This was because on these occasions currency was sold for less than Post Office was either buying it for or at the same rate. Also there would have been a loss of interest on cheques held back by the Applicant.

Cheques should have been despatched from the branch every weekday except Friday (as there were no staff working at the processing centre to accept the despatch on Saturday). Cheques accepted on Friday and Saturday were all despatched together on Saturday. The practice adopted by the Applicant of holding cheques for reconciliation purposes (as claimed by the Applicant) was both incorrect and unnecessary as Horizon recorded every cheque entered and a report was required to be produced and retained of cheques despatched.

The cheques would then have been processed via a clearing house and as such Post Office would only be notified if the cheques were returned "refer to drawer". Due to time elapsed the only records available of "refer to drawer" cheques being returned to the branch are within the CQR evidence supplied by the Applicant. It shows three unpaid cheques that records indicate were to be discussed with the Applicant during the audit undertaken on 9 November 2001. The record is further annotated 'called away to a robbery not completed' which would indicate that the discussion did not take place. There is no evidence that the unpaid cheques referred to relate to **GRO** transactions, however they were for large amounts of £11,141.11, £8,985.18 and £520.00 which indicates that they may have been. To be returned unpaid there would have been an error made on the acceptance which prevented the money being recovered directly from the customer. The error could be no or insufficient transaction details recorded on the reverse of the cheque or the cheque had been made out incorrectly. The reason for returning the cheques to the branch is not recorded.

On 11 October 2001 and 19 November 2001 the NBSC call log indicates that the following instruction was given to the Applicant after a cheque for £30.00 was returned unpaid:- "Ensure all cheque acceptance procedures for the product are followed correctly, E.G. FULL transaction details recorded cheque guarantee card number recorded if required"(Doc 2).

Although it is stated in his CQR at point 11.5 that the Applicant believed that accepting cheque payments from **GRO** was at no risk, the cheques returned to him and the instructions issued by NBSC should have alerted the Applicant to the risk that accepting large unsupported cheques posed.

The instructions issued by NBSC indicate that the Applicant was aware of correct cheque acceptance procedures. These procedures were not exercised when cheques were accepted from **GRO** for bureau transactions.

Horizon would not prevent the Applicant from completing these irregular transactions.

The Applicant states that the audit conducted at the branch on 14 January 2003 was not verified against source documents or critically examined.

Due to the time elapsed since the audit at the branch on 14 January 2003 there are no records of the audit except the reference in the Applicant's CQR.

The purpose of audits conducted was and is to provide assurance of financial assets due to Post Office and confirm compliance with a range of business processes, procedures and regulatory requirements. The audit is conducted to reflect the current trading position of a branch at the moment the audit is undertaken. This is completed by comparing the cash and stock physically on hand to that stated as on hand by Horizon. Thus the trading position of the branch is established. If a discrepancy is revealed Auditors have a defined escalation route. Finance Service Centre (Post Office accounting centre) has the role of managing and assuring client, branch and bank balances.

The Applicant states that Post Office failed to take due notice when transaction corrections were issued.

Due to the time elapsed there are no records available of transaction corrections issued to the branch. Horizon depends on the quality and accuracy of data entry by Users. Post Office had enabled controls at the branch level for the prevention and detection of errors. If the branch fails to identify the error made prior to the documentation being despatched from the branch to the client the Finance Service Centre (Post Office accounting centre) issues a transaction correction to correct the error made.

The Applicant states that Post Office changed the amount he was charged with taking from an initial £645,000.00 to £282,000.00 to a final £94,000.00. (Also referred to as £96,000.00 in the Applicant's initial application to the scheme).

The Applicant pleaded guilty to the charge of theft put on 15 November 2006. A basis of plea was agreed as "The Defendant stole £94,000.00 from the Post Office having begun to do so on return from holiday in August 2002. The remaining deficit of £188,000.00 may have been the result of incompetent accounting or possible theft by other person(s)." Therefore, the loss figure did not change from £282,000.00 to £94,000.00 but Post Office was willing to accept that a smaller amount of the loss had been caused by theft (Doc 001).

The Applicant also cites in his CQR point 32 "it was known that if the alleged amount was less than £100,000.00 the likely custodial sentence would be 2 years or under". Point 33 states "he was further advised that he would be a candidate for open prison and would serve about half a year living at home on a tag".

There are no records to indicate why the amount was reduced from £645,000.00 as reported at the audit on 14 January 2003 to £282,000.00 as stated by the Applicant. The reduction to £94,000.00 the Applicant states was made due to an advance made by the Prosecution to the Applicant's defence team at the beginning of the second court case which he says was due to the flaws in the prosecution's case. Post Office's view is that such offers more frequently emanate from the defence rather than the prosecution: "What if I pleaded to £xxx instead of £xxxxx?" in this case £94,000.00 rather than £282,000.00. For the defence, such advances are often an attractive (and only) way of compromising an otherwise evidentially strong case in a way which

reduces both sentence and confiscation/compensation.

Sentencing is always a matter between the court and defence; the prosecution has no role in sentencing.

Similarly, as neither the prosecution nor the court have any say in where a convicted defendant spends his prison time, this being entirely a matter for the Home Office/HM Prison Service, it is not considered that there was a suggestion made by Post Office that he was a candidate for Open Prison.

For these reasons, the Applicant would not have been advised by Post Office or any lawyer/prosecutor acting for Post Office as to his likely prison status, prison-type, release date or release status (e.g. Tag). It is possible however that the defence lawyer made these suggestions to the Applicant. That of course would be an issue between him and his lawyer and could not form the basis of any legitimate complaint against Post Office under the Mediation Scheme.

Issues related to criminal prosecution

The Applicant claims that Post Office had insufficient evidence to indicate that he was guilty of theft.

If the Post Office could not prove their case or had behaved improperly the trial process was the proper arena to deal with these complaints. If there was insufficient evidence then the defence could have made a submission of no case to answer. If there was improper behaviour by the the Prosecution in the conduct of the case then the defence could make an abuse of process argument. Should these not find favour with the Judge then the applicant should have lodged grounds of appeal with the Court of Appeal.

In the event the Applicant pleaded guilty to theft with the benefit of legal advice and was sentenced accordingly. A guilty plea, as stated above, entails a complete admission of the facts alleged in the count on the indictment pleaded guilty to unless qualified by a written basis of plea. Post Office's view is that had a trial been required then the case would have been found in the prosecution's favour.

Whilst Post Office is unable to determine with certainty having reviewed the limited data available, it has taken the view that the most likely cause of the discrepancy reported at the audit on 14 January 2003 is as follows.

The initial charge of theft of £282,000.00 related to the audit of 14 January 2003 when the foreign currency reported as on hand on Horizon of £282,000.00 in stock unit 'AM' was not presented to the auditors. The Applicant accepts that no such amount of foreign currency was found at that time in Rugeley Post Office as stated in the CQR. (Tab 5 Page 12)

The reason for the reduction by £188,000.00 to £94,000 was following an approach by the Applicant's defence team to Post Office lawyers. They took the view that as the amount of

foreign currency inflations between the period of 4 September 2002 to 18 December 2002 totalled £94,000.00, and prior to this time the Applicant had been on holiday, this was a reasonable figure to accept for the basis of the plea.

The £94,000.00 was theft by the Applicant as his guilty plea at court demonstrates.

Other issues

During his period of suspension the Applicant failed to fulfil his obligation to pay rent to Post Office as landlord of the premises that the Post Office was sited in. The property was never owned by the Applicant and so when he ceased to pay rent, Post Office took control of the premises and leased it to a new party. The exact nature of the payment made to Post Office by the new party when the premises transferred cannot be determined due to there being no records available from which to verify this, but it is very likely to be a lead in payment to cover training etc.

Documents being provided to Second Sight

List documents (if any)

1. M118_POL_001_Court Sentencing Details_CB	Sentencing Details 19 January 2007
2. M118_POL_002_NBSC Call Logs_CB	NBSC call logs 12 April 2000-16 January 2003
3. M118_POL_003_Period of TenureCB	Table of Postmasters at Rugeley