



Pack for meeting with James Arbuthnot and other MPs Meeting scheduled for 18th June 2012, 6pm, Portcullis House.

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1. Agenda

Attendees:	James Arbuthnot MPs	Member of Parliament for North East Hampshire Final list to be confirmed
	Alice Perkins Paula Vennells Alwen Lyons Angela Van-Den-Bogerd	Chairman, Post Office Ltd Chief Executive, Post Office Ltd Company Secretary, Post Office Ltd Head of Network Services, Post Office Ltd

	Agenda Item	Lead by:	Duration (minutes)
1	Overall Introduction	James Arbuthnot	10
2	Post Office Introduction	Alice Perkins	10
3	Background	Paula Vennells	10
4	Two anonymous case examples	Angela Van-Den-Bogerd	10
5	Discussion and Recommendations	James Arbuthnot / Alice Perkins	15
6	Conclusion and next steps	Alice Perkins	5



2. Key Messages

	Agenda Item	Who	Duration	Key Messages
1	Overall Introduction	James Arbuthnot	10	<ul style="list-style-type: none"> ○ Introduce those round the table ○ Purpose of the meeting
2	Post Office Introduction	Alice Perkins	10	<ul style="list-style-type: none"> ○ Appreciate taking the time to meet us today ○ We take this issue very seriously. This impacts the lives of individuals, public money is at stake, and so is our reputation ○ We are open to feedback and we will provide you the information we have available, we want to work with you to address all your concerns



3	Background	Paula Vennells	10	<ul style="list-style-type: none"> ○ Confirm above ○ Sub Postmasters are key to our business and it is important to me that we support them in every way we can ○ To support our branches we have a helpdesk that provides telephone support 7 days a week, field support teams, and class room training for new agents. We are constantly looking to improve, so any feedback you may have from your constituents is welcome ○ The Horizon is the system used in branches to manage the branch accounting. If a sub postmaster has any questions or concerns about their transactions in Horizon the help desk is there to support them ○ Occasionally we do get incidents of fraud. This is unfortunate, but as it is public money at stake it is important that we protect it ○ Even in cases of fraud we do try to treat the agent with care and respect throughout the process
4	Two anonymous case examples	Angela Van-Den-Bogerd	10	<ul style="list-style-type: none"> ○ Describe high level process when fraud is suspected: Eg, P&BA phone call, audit, investigation, interview ○ Case 1 Key points ○ Case 2 Key points
5	Discussion and Recommendations	James Arbuthnot/ Alice Perkins	15	<ul style="list-style-type: none"> ○ Opportunity for the MPs to express their thoughts. ○ JA to propose his idea of a “Forensic Audit” ○ AP to offer a review of the individual cases relevant to each the MP and get view on the best way of doing this.
6	Conclusion and next steps	Alice Perkins	5	<ul style="list-style-type: none"> ○ Gain consensus of views ○ Agree next steps



3. Potential Questions

	Question	Response
1	Why are crown staff and sub-post masters treated differently if found committing fraud	<p>Post Office staff are expected to balance in the same way as sub postmasters. If a clerk misbalances resulting in a loss of more than £30:</p> <ul style="list-style-type: none"> ○ Three times in a three month period (or less) they receive an informal warning ○ Six times in a six month period (or less) they are interviewed ○ Nine times in a nine month period (or less) they are re-interviewed and put on an improvement plan which could lead to dismissal if no improvement is forthcoming. <p>Criminal Investigation and Prosecution Process</p> <p>Post Office applies consistent investigation and prosecution processes across our Sub office and our Crown estate.</p> <p>Once any branch comes to our adverse attention we would raise an active investigation and proceed in a formalised manner. Suspect offenders would be interviewed under the auspices of PACE (Police and Criminal Evidence Act) and cases passed for advice to lawyers. The lawyers would apply the “prosecutors’ guidelines” (in reality CPS checks and balances) to the matters in hand and advise prosecution, or not, accordingly dependant on evidence and not branch type.</p> <p>In terms of investigation and prosecution it is factually incorrect to state or infer that we treat the branch office staff differently.</p>



2	<p>What is our view of Computer Weekly</p>	<p>Computer Weekly is well respected within the IT industry and widely read in Government.</p> <p>Computer Weekly does not have in-house experts; it relies on using expert consultants from the industry at large.</p> <p>As we have external and internal experts available we don't believe Computer Weekly can assist us in this specific case. Although there is no evidence of problems with Horizon, as an assurance exercise we are considering a forensic audit of the Post Office Horizon IT system. If we do proceed with this audit, it is likely that we will use an experienced audit organisation.</p> <p>We will, however, will be engaging Computer Weekly as part of our IT Transformation communication plan, and will pick up any Horizon related matters through that forum.</p>
3	<p>If when suspected of fraud we bar sub-postmasters from the system, how can they be expected to prove their case?</p>	<p>Sub-Postmasters should be balancing their accounts at the end of every day. If there are any discrepancies they should be investigated by the sub-postmaster with assistance from the help desk and P&BA. There should be no surprises at the time of an audit.</p> <p>In cases where an auditor has found evidence of fraud, the previous trial balance (which the sub-postmaster has approved) will be the baseline record. If there are found to be any discrepancies with that Trial Balance the sub-post master should have followed the standard process to resolve.</p> <p>If discrepancies are found during the audit, the sub-postmaster will have the opportunity to explain any anomalies.</p>
4	<p>Does the system allow sub-postmasters to understand why errors occurred, eg can they interrogate past transactions?</p>	<p>Yes, they can go back and look at past transactions</p> <p>The help desk and P&BA can also provide assistance</p> <p>Sub-postmaster should do a cash balance every day so, so should not be necessary for them to integrate vast quantities of transactions.</p>



5	Why are we considering Deloittes to perform the audit?	KPMG are excluded as they are Fujitsus' auditor E&Y are excluded as they Post Office's auditor PWC are not recommended because not on Post Office's supplier short list, although this could be bypassed if required. Deloittes are on Post Office's supplier short list and have proven experience in this area
6	The audit could cost in the region of £250-£500k, why so expensive?	The audit envisioned is a thorough end-to-end review of processes, systems and data which not only could reveal potential improvements but could be used as an assurance for court future cases. The cost is a result and thoroughness of the audit and the expertise required. An alternative, reduced scope audit could also be considered.



4. Network Background

The Post Office has a unique and valued place at the heart of communities across the UK.

A third of the UK population and half of all small businesses visit a Post Office each week which helps to make it one of the nation's most valued and treasured organisations.

It is seen as a vital public service but it faces a challenging commercial environment.

Over the last ten years footfall has dropped from 28 million customers a week to just under 20 million. This is largely driven by the reduction in government services and a shrinking consumer mails market in an increasingly digital world.

Following the enactment of the reforms contained within the Postal Services Act 2011, Post Office Ltd is now (as of 1 April 2012) an independent company. It has its own Chairman and full Board including non-executive directors. The Postal Services Act has made clear that the company will remain in the public sector – with the possibility of mutualisation at a later date.

The company provides services to just under 20 million customers (and to half of all small businesses in the UK) per week

We have a network of over 11500 Post Office branches. 373 of these branches are operated directly by Post Office Ltd. All the others are agency branches operated by independent business people or multiple retailers - typically as part of retail premises. There are over 10,000 agency branches.

The network carries out over 150 million transactions a month.

Post Office Ltd provides full infrastructure support to all branches with a UK-wide cash and stock distribution system, product and marketing support, a helpdesk who provide telephone support for sub-postmasters, and field support teams who provide on site support.



5. Horizon

Summary:

- Horizon designed with integrity in mind from day one
- Horizon has undergone external scrutiny
- Each transaction is audited and protected with a digital signature to prevent change or tampering
- Reconciliation processes automatically detects any problems

Background

- The Horizon computer system is used in all Post Office branches to process counter transactions and process all in-branch accounting processes. Horizon enables sub postmasters to account accurately for each transaction they undertake in their branch.
- The system has been operating for over ten years. In that time around twenty thousand sub postmasters have used it in performing many millions of successful weekly and monthly financial reconciliations between the cash they have in the office and the transactions they have handled.
- The National Federation of Sub Postmasters (NFSP), which represents sub postmasters throughout the country, has expressed its full confidence in the accuracy and robustness of the Horizon system.
- In 2010 Horizon underwent an upgrade. The upgraded system was tested and has the full support of the NFSP

External Scrutiny

- Horizon and Post Office Ltd systems environment have always been subject to external scrutiny for both assurance and accreditation purposes. Ernst & Young carry out an annual financial systems audit; an independent auditor also carries out a yearly audit to maintain the system's Payment Card Industry (PCI) accreditation.
- The system and its Data Centre are ISO 27001 accredited which requires an annual audit from an independent agency. Horizon is also accredited by HSBC Payment Services and WorldPay (Post Office's Merchant Acquirers) and must comply with the VocaLink standard for card payment transactions. In addition to these regular audits, ad hoc independent audits of the system are initiated by Royal Mail Group and supported by Post Office Ltd.



Designed for Security and Integrity

- Horizon was originally built to support benefit payments against requirements from Post Office Limited and the Benefits Agency. The need for security, integrity and a strong audit trail has been emphasised since day one.
- Horizon system keeps full audit records of all transactions undertaken by all log ins – so that it is always possible to track back anything that has occurred within the system – or at an individual sub post office
- The system is designed such that all data is sequentially numbered at the point of its creation and is separately stored in a secure tamper proof facility for 7 years – so that recreation of situations and track back is always feasible
- Horizon requires clerks to log on, using their own username and password before any transactions can be carried out.
- Horizon captures 'baskets' consisting of items sold and payments in or out at the counter. When the clerk settles a basket this is clearly shown on the counter screen. Software at the counter digitally 'signs' each basket.
- Each basket is written to the audit trail where it is kept for 7 years. Data in the audit trail is cryptographically protected to ensure that its integrity can be asserted.

Reconciliation and Validation

- Each basket is checked to balance to zero at the data centre; if it did not (eg because of a bug in the software) it would be rejected. The signature applied by the counter is checked before the data is written to the database.
- The data centre also checks that each basket is the one expected (i.e. the count has gone up by exactly one). If it is not, then, if appropriate, the clerk is notified of the need to recover.
- Transactions are reconciled with all the banks and clients, any discrepancies are investigated and resolved.



6. Post Office Recruitment and Training Process for Sub Postmasters

Prior to appointment

The key extracts of the contract are covered at the interview stage by the Contracts Advisor. One part of which is:-

Post Office cash & stock

- Balancing/branch trading.
- All discrepancies to be made good immediately.
- Fraud.
- Cash for PO use only.
- Robbery/burglary,
- Error, theft by assistants, cashing personal cheques.

Following Appointment

A copy of the contract is sent to the agent.

An appointment pack is also issued to agents when they take over a branch and is explained by the trainer to the agent whilst on site.

The following is an extract from the document:-

The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay. Section 19:

Once the offer of appointment is accepted, training dates are then confirmed.

Training

Training processes are under constant review and can be modified to accommodate a variety of circumstances. Training commences within classroom for larger branches and is delivered in advance of the site transfer, or delivered at the time of the on site transfer in smaller branches. The Ops Manual is used as reference document during training and all subpostmasters have a copy, although most of the Ops Manuals are now on-line in 'Horizon on-line Help' which is available at every branch.



Both the classroom and on-site training includes how to complete the office balance and the trainer is on site with the agent for the completion of the first office balance, which is always a Branch Trading Statement.

Follow up support is provided to assist with balancing or any other training needs. This takes the form of:

- Helpline support at NBSC. If unable to resolve the issue the agent is referred to the POLtd Branch Support team.
- The Branch Support Team is able to provide telephone support to the agent. If this support doesn't fully resolve any issues (and in the majority of cases this does) then this is escalated to the Field Support Team.
- A member (trainer/auditor) of the Field Team will also telephone the branch to assist and if necessary then visit the branch to provide face to face support.
- Remedial training would be arranged following the face to face support if the Field Support Advisor felt this was necessary.

Is the training adequate?

Customer satisfaction with training is tested through independent research questionnaires collated by an independent research company. The field team leader receives a copy of each branch feedback form and if any comments cause concern or if any Agent raises an issue regarding the quality of the training or lack of confidence this is followed up by the team leader. There is currently a 95% satisfaction from a response rate of 69%.

Initial training

All new entrants to the business receive classroom training the length of which depends on the model of the branch, plus 6 days training on site. All new Agents also have further follow-up contact to embed training, which includes:-

- At one month from appointment a follow up telephone call to check all is okay and they are confident;
- At three months from appointment a face to face visit to check all is okay and observe the branch operationally, provide a refresh and support as necessary;
- At six to nine months after appointment a face to face unannounced follow up which is unannounced and includes a procedural and compliance audit, an audit of cash and stock



7. Example Case 1

Date	Action
24/12/2001	<ul style="list-style-type: none"> Sub Postmaster begins working at the Banch X SPSO.
21/10/2003	<ul style="list-style-type: none"> SUB POSTMASTER appointed as subpostmaster (SPM). SPM assisted by Mrs Partridge. Mrs Partridge denies (in her statement dated 31/07/2006) having ever assisted with balancing or completed any cash declarations.
1/12/2004 to 1/4/2006	<ul style="list-style-type: none"> Cash held increases from £15,000 to £35,000 (See Graph at 7.2)
03/02/2004	<ul style="list-style-type: none"> Unidentified loss of £3,191.00. SUB POSTMASTER requested hardship payments to be set up to clear this loss. (Payment deducted from salary over a 12 month period)
24/02/2005	<ul style="list-style-type: none"> Unidentified loss of £750.00. SUB POSTMASTER requested hardship payments to be set up to clear this loss.
01/05/2005	<ul style="list-style-type: none"> Warning letter sent to SUB POSTMASTER for rolling balance not made good (£724)
01/09/2005	<ul style="list-style-type: none"> Second warning letter sent to SUB POSTMASTER for rolling balance not made good (£188)
05/10/2005	<ul style="list-style-type: none"> PO migrated to branch trading. (Formal balancing every month instead of every week). No onsite visit provided, but would have been provided with an interactive training CD ROM, a Transition Guide, a Quick Reference Guide, a branch trading calendar and the relevant manuals. The SPM would also have been invited to attend a number of face-to-face events explaining migration. Records indicate that no requests were made for replacement materials or that the CD-ROM be exchanged for a video.
08/02/2006	<ul style="list-style-type: none"> Branch Trading Statement for trading period 10 (13/01/06 to 08/02/2006) completed. Statement shows a shortage of £6.74 and cash on hand stated as being £35,515.83.
06/03/2006	<ul style="list-style-type: none"> Rebecca Portch (Retail Cash Management Support) contacted the branch regarding high levels of cash holdings. Branch paying out approximately £2,500 on average per week, but declared cash holdings in excess of £20,000. SPM requested by Ms Portch to return £25,000 by 08/03/2006. SPM alleged to have advised a NFSP representative, Kam Matharu, that there were problems at this branch. The nature of the problems was not



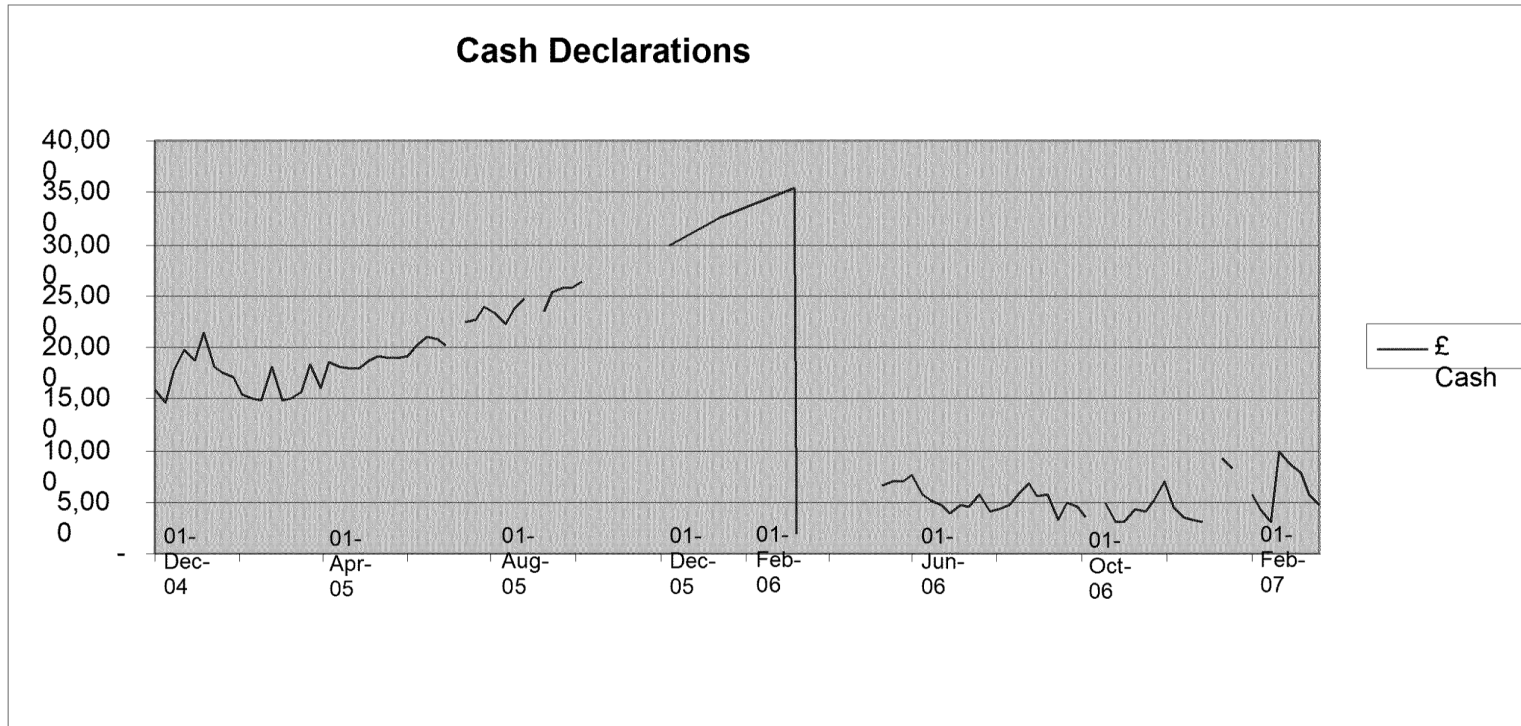
	<ul style="list-style-type: none"> • specified.
07/03/2006	<ul style="list-style-type: none"> • SPM signed off on sick leave.
08/03/2006	<ul style="list-style-type: none"> • Excess cash holding not returned by SPM as per request.
09/03/2006	<ul style="list-style-type: none"> • Audit undertaken. Deficiency (including cash and stock) of £36,644.89 identified by the audit team. • Cash figure on Horizon stated to be £37,360.06. The cash physically verified as being n hand only £1,933.48 (a difference of £35,426.58). • SPM precautionary suspended as a result of shortfall. SPM requested to attend an interview under caution.
15/03/2006	<ul style="list-style-type: none"> • Izzy Hogg, solicitor acting for the SPM, contacts POL and offers to provide a written statement. Ms Hogg informed that an interview under caution will still need to be conducted.
12/04/2006	<ul style="list-style-type: none"> • Second letter sent to SPM regarding interview.
21/04/2006	<ul style="list-style-type: none"> • Agreed interview will take place on 05/05/2006.
05/05/2006	<ul style="list-style-type: none"> • Interview conducted by POL under caution at offices of the SPM's solicitors. • POL provided disclosure of documents to be put to the SPM in the course of the interview. Includes cash declarations and branch trading statements. • SPM provides a pre-prepared written statement. The statement states that the SPM did not receive adequate training and that the operation manuals provided were out of date. Statement also makes reference to an error for £1,500 which is alleged to have doubled to £3,000 when attempts were made to correct it. The SPM was invited to confirm when that error is alleged to have occurred, but the SPM declined to comment. Statement also contains a denial that the SPM has ever stolen monies. • Taped interview commenced at 12:13pm. The prepared statement was read and the SPM then gave "no comment" responses to all the questions raised by the interviewing officers. • Interview concluded at 13.32pm.
11/10/2006	<ul style="list-style-type: none"> • Decision taken to prosecute for theft.
30/10/2006	<ul style="list-style-type: none"> • Summons issued requiring the SPM to attend before the Aldershot Magistrates Court.



09/10/2007	<ul style="list-style-type: none">Defence offers pleas to false accounting by way of mitigation.
19/11/2007	<ul style="list-style-type: none">Hearing before Winchester Crown Court.SPM pleads guilty to 14 separate counts of false accounting. This is accepted by POL on the basis that the losses are repaid in full by 25/01/2008. Count of theft to remain on file until payment made in full.
04/02/2008	<ul style="list-style-type: none">SPM sentenced to 12 month Community and Supervision Order.
18/02/2008	<ul style="list-style-type: none">Cheque for £37,644.89 received from the SPM.



Cash Declarations





8. Example Case 2

The defendant Sub Postmaster X (D.O.B [GRO]) had been employed as a Post Mistress for over four years. Sub Postmaster X worked at the Branch Y Post Office, but also operated an outreach Post Office at Branch Z.

An audit was conducted at the Branch Y Post Office on the 29th September 2011 following concerns raised by a former holiday relief worker at the Branch Y branch in August 2011 over alleged cash shortages.

Mr Constant and Mr Gilding arrived at Branch Y Post Office at 8:30am and introduced themselves to Miss Lisa Porter, the daughter of Sub Postmaster X who was sitting behind the counter having already logged on to the Horizon system and accepted the Transaction Acknowledgements.

Mr Constant asked Miss Porter when she expected her mother to arrive, Miss Porter informed the auditors that she would be in later on as she had gone to the cash and carry. Mr Constant asked Miss Porter if she would allow him access to the secure area, which she did, and also to inform her mother that the auditors were at the Post Office. Sub Postmaster X allegedly told her daughter to ask the auditors to wait until she arrived at the branch before they continued, Miss Porter remained quiet until her mother arrived.

Whilst waiting for Sub Postmaster X to arrive, Mr Constant logged onto the Horizon system for the Branch Y branch using the Global User name and password as Miss Porter did not have Manager Access to the system. Mr Constant then created user ID BC0003 and logged on to the Horizon system, using that ID to produce audit reports.

Mr Constant also logged on the Outreach Horizon system for the Branch Z, using the user ID BC0001. No other action was taken until Sub Postmaster X was presents in the branch.

Sub Postmaster X arrived at 09:15am and Mr Constant advised her that they were there to perform an audit.



Before the audit commenced Sub Postmaster X advised Mr Constant of a cheque for £9500 and explained that she had removed cash to that value the previous evening after she had declared her cash onto the Horizon system. The cheque appeared to be with her outstanding daily documents, when questioned about this, Sub Postmaster X stated that she meant to put the cheque through the system the evening before but hadn't done so, and was intending to process it that morning. Sub Postmaster X explained that the cheque was to pay for 'something personal' that had nothing to do with the shop. She explained that she had needed the cash urgently but was unable to get to the bank(s). Sub Postmaster X explained that she thought she was allowed to use Post Office cash as a cheque had already been put in to cover it. She expressed that she did not intend to steal the money and that the cheque, if banked would be honoured.

Sub Postmaster X confirmed that this was the first time that anything like this had happened. However the audit team noted that the date on the cheque had appeared to have been altered from what appeared to be '5' (May) to a '9' (September). When asked, Sub Postmaster X said that it was due to a writing error. There were no details recorded on the reverse of the cheque and it had not been date stamped.

Mr Constant confirmed with Sub Postmaster X that he should expect to find the cash at least £9500 short when it was counted, she confirmed that was correct.

Branch Y Audit findings:

£8546.17	(-)	Difference in cash figures
£404.74	(-)	Difference in stock figures
£518.24	(+)	Difference in postage figures
£17.40	(-)	Difference in foreign currency figures

£ 8415.27 Total Shortage

Branch Z Outreach Branch Audit findings:



£3517.96	(-)	Difference in cash figures
£46.71	(-)	Difference in stock figures
£933.17	(+)	Difference in postage figures
£17.40	(+)	Difference in foreign currency figures

£ 3471.55 Total Shortage

The total audit revealed a shortage of £11,886.77 at the two branches under the control of Sub Postmaster X. The event log balancing printout showed shortages were apparent during August 2011.

Sub Postmaster X was issued with a without prejudice receipt for the £9500 cheque and a further without prejudice receipt for a second Santander cheque for £2386.77 that together made up the discovered shortages on the day. Both cheques later returned not honoured.

Mr Adderley, Contracts Manager precautionary suspended Sub Postmaster X's contract for services on the 29th September 2011. Sub Postmaster X admitted to Mr Adderley on the day of the audit that she had taken the money from the Post Office on the evening of the 28th September 2011 for a personal matter, confirming what she had advised the auditors at the office that day.

On Monday 3rd October 2011 Sub Postmaster X was contacted by Mr Thomas to informing her that he needed to interview her and explained her legal rights and the Post Office Friend rule. Sub Postmaster X confirmed that she was receiving legal advice and that she would contact him once she had done this.

On the 5th October 2011 Mr Thomas requested and received a personal printout from HR for Sub Postmaster X.

Whilst awaiting to hear from Sub Postmaster X, Mr Thomas continued to progress aspects of the case such as PNC results etc. Following a further telephone conversation, Mr Thomas wrote to Sub Postmaster X again confirming that she still needed to conduct an interview with her under caution. Mr Thomas was eventually contacted by Mr Mike Robinson of Morton Law Solicitors in Yeovil and an interview was arranged at their offices on Wednesday 9th November 2011. Mr Thomas and Lisa Allen attended the offices at 12:30hrs where disclosure was given from Mr Robinson.



Interview

The caution was explained to Sub Postmaster X and the interview commenced at 13.18 hrs in accordance with PACE. During the interview Sub Postmaster X said the following:

1. That she denied having taken the money the night before the audit as she had previously advised the auditors, and now produced a large document regarding on-going litigation by Shoosmith Solicitors over the reliability of the Horizon system.
2. She only admitted taking the money during the audit because she was upset and would have said anything at the time, when shut in a room with two men that she did not know. She went on to say that she felt intimidated and would have done anything to get herself out of that situation. Mr Thomas confirmed that at no point was she locked in a room, but was in fact in a secure area in full view of customers who were being advised that the Post Office was closed whilst the audit was being undertaken. She was only present to monitor the audit taking place. Her daughter was also present.
3. Mr Thomas referred to an 'Event Log Balancing' printout which identifies an entry made by TME001 (Sub Postmaster X) on the 17th September 2011 at 12:36 hrs that identifies a substantial discrepancy that was immediately followed by a re-entry increasing the cash on hand by some £14,400 and resulting now in a surplus of £245.45. (This was not posed to Sub Postmaster X at the time of the interview).
4. When asked, Sub Postmaster X denied taking any money but blamed the Horizon system. Mr Thomas then advised her that it was her responsibility to arrange an audit following information received from the holiday relief Catherine Early which appeared to be true. Sub Postmaster X denied that she had asked Catherine to inflate the cash on hand by £12,000. She stated that there had been occasions where she needed to take money to Branch Z from Branch Y and had not been able to officially transfer the money as she had no barcodes to do it. Sub Postmaster X conceded that even if that was the case, the two branches would not balance and the amount still would have been short. Mr Thomas asked why would Catherine Early advised POL about the shortages if they were not true? And was she, therefore suggesting that Ms Early was lying? To which Sub Postmaster X could not say if she was lying, but only that she had not asked her to inflate the cash declaration.



5. At the end of the interview, Sub Postmaster X stated she would be willing to allow searches of her home to be conducted. A search was conducted at 16:27hrs and concluded at 16:41hrs. Three items were seized that related to various bank statements, copies of which were forwarded to Dave Posnett.
6. The loss to POL was £11,886.77 and Sub Postmaster X gave a signed undertaking to repay £9,500 within 14 days of her interview on the 9th November 2011.