

Post Office Mediation Scheme

DRAFT

Second Sight - Case Review Report

Case Reference: M120

Applicant: Pauline THOMSON

Advisor: Graham Cade (Howe & Co)

22 November 2014

This draft report and accompanying documents are confidential and are not to be disclosed to any person other than a person involved in the processing of the Applicant's claims through the Scheme

1. Introduction

1.1. This report has been prepared by Second Sight, which is the trading name of Second Sight Support Services Limited, the company appointed to conduct an independent investigation of a number of matters raised by Subpostmasters, or former Subpostmasters.

1.2. This report should be read in conjunction with the following:

- a) the documents submitted by the Applicant and her Professional Advisor;
- b) Post Office's Investigation Report ('POIR') including attachments;
- c) Second Sight's Briefing Report - Part One; and
- d) Second Sight's Briefing Report - Part Two.

1.3. The Terms of Reference for Second Sight as set by the Mediation Working Group for this work are as follows:

- a) To investigate the specific complaints raised by each Subpostmaster who has been accepted into the Scheme with the aim of providing:
 - i. an assessment of points of common ground between Post Office and that Subpostmaster;
 - ii. an assessment of points of disagreement between Post Office and that Subpostmaster;
 - iii. where there is disagreement, a logical and fully evidenced opinion on the merits of that Subpostmaster's complaint where it is possible to do so;
 - iv. a summary of any points on which it is not possible to offer a fully evidenced opinion due to a lack of evidence/information;
 - v. a view on whether a case is suitable for mediation; and
 - vi. assisting with any reasonable requests made by the Working Group and/or Post Office.

1.4. Second Sight has been provided with the following documents:

- a) the Initial Application to the mediation scheme submitted by the Applicant;
- b) the Case Questionnaire Response ('CQR') submitted by the Applicant's Professional Advisor; and

- c) Post Office's Investigation Report ('POIR'), prepared in response to the above mentioned documents.

1.5. The following are the issues raised by the Applicant:

- a) responsibility for direct losses that total £34,330.41;
- b) transaction anomalies associated with Cheque Remittances ('Rems');
- c) mis-advice by Post Office's Helpline;
- d) adequacy of training and support, including Helpline and Audit;
- e) limitations in the Audit Trail available to Subpostmasters;
- f) process issues at the end of each Trading Period;
- g) Post Office's Investigations and Prosecutions processes; and
- h) other consequential losses, not dealt with in this report, but which may be raised if the case progresses to mediation.

1.6. This report focuses on the net loss of £34,330.41, an amount that remains unrecovered from the Applicant. Other issues, not all of which are dealt with in detail in this report because we could not find a causative link to the financial loss, may however be relevant to the mediation process.

1.7. The main drivers of the losses are alleged by the Applicant to be inadequate training, mis-advice by Post Office's Helpline and inadequate investigative support.

1.8. The Applicant was in post as Subpostmistress of the Matfield branch between 4 September 2004 and her suspension on 12 September 2008 following an Audit that identified a discrepancy of £34,330.41. She had previously worked in various Post Office branches, mainly on a part-time basis, saying that she had become comfortable with using the paper-based system that preceded the implementation of Horizon. She worked alone in the branch with no assistants.

1.9. The Applicant reports that she was arrested on the day of the Audit and taken into custody and says that a search was conducted of her house. She says that no evidence of theft was discovered. She did, however, later admit that she had been falsely inflating the branch's cash on hand figures by an amount exceeding £40,000, for a period of four to five months prior to the Audit.

1.10. The Applicant was charged with both theft and false accounting but the theft charge was later dropped when she pleaded guilty to three counts of false accounting. She was convicted

on the false accounting charges and sentenced to 120 hours of community service but no order in relation to compensation or costs was granted to Post Office.

2. Points of common ground between the Applicant and Post Office

- 2.1. It is common ground that the shortfall disclosed by the 12 September 2008 Audit was £40,783.50. That amount was then reduced to £34,330.41 after deducting a credit balance of £6,453.09 that had been held at Post Office's Finance Service Centre (FSC) being the net amount remaining of the discrepancies that the Applicant had previously settled centrally.

3. Points of disagreement between Post Office and the Subpostmaster

- 3.1. The Applicant says that, when she took over the running of the Matfield branch she received no training and did not even know the name of anyone she could contact for help and advice and that, up until the date of the Audit, she did not have a single visit from any Post Office manager. She says that her problems started about a year or eighteen months before she was suspended when losses started to arise that she did not understand. Post Office refers to a statement allegedly made by the Applicant while she was being interviewed at Tonbridge Police Station on 12 September 2008 that she "*had received adequate training*".
- 3.2. The Applicant says that she had a particular problem when a holiday relief worker (who happened to be the previous Subpostmistress) failed to properly Rem out cheques totalling £6,319.22 that she had received from customers, though she had correctly sent them off to the appropriate Post Office Cheque Handling Centre. The Applicant says that, when she returned from holiday, the £6,319.22-worth of cheques was still showing up as stock in the branch. The Applicant says that, despite her following advice given by the Helpline, "*the loss doubled up*" and that it (we take it that she means "the loss") remained on the branch's books until it became subsumed in an apparent £40,783.50 shortfall discovered by the auditors.
- 3.3. The Applicant says that "*no attempt whatsoever was made to investigate the cause of the actual loss, the interview just proceeded on the assumption that I was guilty of theft*".
- 3.4. Referring to the prosecution, the Applicant asserts that "*at no stage during the proceedings against me did the Post Office produce any disclosure, there was no accounting evidence produced by them to show where and how I had stolen the money that they said I had*".
- 3.5. The Applicant has also produced (included as an Exhibit to her CQR) a forensic accountant's report that was adduced in defence against the theft charge. The accountant at several point in his report refers to the difficulties that he faced as a result of trying to review documents that were illegible "*due to the poor printing quality*". The report includes the following remarks:

"the prosecution have provided no accounting evidence" and...

"without sight of the daily cash declarations, I cannot be certain that:

- a) *The Horizon system was not working correctly and the discrepancy could be as a consequent of faults within the system*
- b) *Due to human error on one or more occasions, a figure has been wrongly entered into the system by Mrs Thomson, which has led to the discrepancy, which has later been compounded by the defendant declaring the amount held on the system to be correct".*

4. Where there is disagreement, a logical and fully evidenced opinion on the merits of that Subpostmaster's complaint where it is possible to do so

- 4.1. Post Office has investigated the matter of the £6,319.22 in cheques that were sent to the Cheque Processing Centre but not remitted out of Horizon and has established that a Transaction Correction (TC) Credit was - correctly - issued, on 3 October 2007, to the branch. The Applicant should, on receiving that TC Credit, have accepted it and at the same time reduced the cheques figure on Horizon by that £6,319.22 (i.e. the TC Credit would have then cancelled out the impact of reducing the cheques on hand figure to zero). The Applicant did not do that, however, instead settling the TC centrally and failing to reduce the cheques figure to zero. This had the effect of generating, in the branch's books, a surplus of £6,319.22 because those cheques were still being shown, just like the branch's stock of stamps and cash, as an asset held in the branch. There being no cheques there, the stock of cheques was overstated, thereby maintaining an apparent, but not real, surplus.
- 4.2. By settling that TC Credit centrally (normally TC Invoices, rather than Credits, are settled centrally so that they can be paid off in instalments by deductions from salary) the Applicant had created, in effect, a centrally-held debt due to her instead of reducing the cheques-held figure to zero. That debt due to her comprised the greater part of the figure of £6,453.09 that served to reduce the apparent Audit-date shortfall of £40,783.50 to £34,330.41, as mentioned in paragraphs 1.6, 2.1 and 3.2 above.
- 4.3. The first cheque-related error was compounded nine months later, in July 2008, when the Applicant incorrectly overstated the branch's outgoing cheque remittances by £6,177.18, thereby generating a negative figure on the cheques line in Horizon (though this ought not to be possible). The Applicant manually adjusted that figure back to zero on that same day. When the Cheque Processing Centre found the shortfall in remitted cheques, Post Office generated another TC (a TC Invoice this time) to correct that error. The Applicant again settled this centrally.
- 4.4. Having reviewed these transactions, errors and TCs, we have concluded that Post Office was not at fault in any of its actions. The Applicant, on the other hand, made mistakes and then compounded them with further mistakes, which had the effect of masking the branch's true shortfall that was, by that point, very substantial.

5. A summary of any points on which it is not possible to offer a fully evidenced opinion due to a lack of evidence/information

- 5.1. It has proved impossible to determine whether the Applicant's criticisms of her training are justified because Post Office no longer holds the records that we would need to evaluate the training that she received. We note, however, the Applicant's remarks, referenced in paragraph 3.1 above and, in the absence of any evidence to the contrary, we are inclined to believe that she really was inadequately trained and supported.
- 5.2. We are perhaps more sympathetic than Post Office seems to be to the substantially different and greater responsibilities that a Subpostmistress, working alone and using the Horizon system, bears than does any counter assistant operating in a paper-based environment and not having to balance the books and investigate discrepancies. We do not share Post Office's apparently-held view that, by reason of her prior counter experience, only minimal training was necessary when she was elevated to the post of Subpostmistress. We therefore think that it is reasonable to conclude that, in consequence, she will very likely have made mistakes that generated substantial losses in the branch. We have concluded, therefore, that Post Office bears some responsibility for those losses.
- 5.3. We do recognise that, whenever figures are falsified to conceal losses, Post Office is prevented from seeing, and therefore also prevented from reacting to, those losses. It follows that, although false accounting cannot ever be the initial cause of a loss, it can exacerbate that initial loss by preventing its detection and mitigation and it can also prevent the correction of the practices and procedures that generated the loss in the first place. In that context, the Applicant must also bear some of the responsibility for those losses.
- 5.4. In regard to the Applicant's reference to a loss "doubling up" Post Office has found no evidence to help us establish what really happened and we have concluded, in the absence of further evidence, that the comments made in paragraph 4.1 above deal with this.
- 5.5. Post Office attributes the inability of the forensic accountant to determine the actual figures entered by the Applicant into the Horizon system was because the Applicant had "*failed to print legible records of transactions and retain them in branch as she was required to do*". We ourselves, having experienced similar difficulties in examining branch records, can understand the negative impact that such illegibility has on the ability of branch staff to follow the transactional audit trail when investigating discrepancies. In this instance, Post Office seems to be attributing the failure of the theft charge to the Applicant, rather than to any systemic weakness in Horizon's audit trail.

6. Is this case suitable for mediation?

6.1. In our opinion this case is suitable for mediation, not least because it will offer both parties the opportunity to reach closure in understanding the impact that training inadequacies, and the Applicant's falsification of the accounts, had in increasing the impact of errors made by the Applicant and also increasing the magnitude of the losses that ensued from those errors. The following issue should also be considered:

- a) whether Post Office or the Applicant is responsible in part or in whole for the loss of £34,330.41 that remains unrecovered by Post Office.