



Pack for meeting with James Arbuthnot and other MPs Meeting scheduled for 18<sup>th</sup> 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	5
2	Post Office Introduction	Alice Perkins	5
3	Background	Paula Vennells	5
4	Two anonymous case examples	Angela Van-Den-Bogerd	15
5	Discussion and Recommendations	James Arbuthnot / Paula Vennells	25
6	Conclusion and next steps	Alice Perkins	5



**2. Key Messages**

	Agenda Item	Who	Duration	Key Messages
1	Overall Introduction	James Arbuthnot	5	<ul style="list-style-type: none"> <li>○ Introduce those round the table</li> <li>○ Purpose of the meeting</li> </ul>
2	Post Office Introduction	Alice Perkins	5	<ul style="list-style-type: none"> <li>○ Appreciate taking the time to meet us today</li> <li>○ We take this issue very seriously. This impacts the lives of individuals, public money is at stake, and so is our reputation</li> <li>○ 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</li> <li>○ Would rather be talking to you about the amazing things we are doing at the Post Office, but we need to address this concern, so today we will just focus on this.</li> </ul>



3	Background	Paula Vennells	5	<ul style="list-style-type: none"> <li>○ Confirm above</li> <li>○ Sub Postmasters are key to our business and it is important to me that we support them in every way we can</li> <li>○ 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</li> <li>○ 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</li> <li>○ I am confident about the integrity of Horizon; it was built on robust principles of reliability and integrity. It has undergone and many external audits and no problems of this nature have ever been raised. On a technically level:             <ul style="list-style-type: none"> <li>○ An audit trail is created for each transaction which means we can look at all transactions done at the counter and see what happens to them subsequently</li> <li>○ Each transaction is protected with a digital signature to prevent change or tampering. Which means if someone was able to penetrate the many layers of security – they wouldn’t be able to unlock the seal that protects the transaction – this prevents any malicious manipulation</li> <li>○ Reconciliation processes automatically detects any problems. Which means if there is a problem, deliberate or otherwise, it would be caught on the reconciliation reports</li> </ul> </li> <li>○ 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</li> <li>○ Even in cases of fraud we do try to treat the agent with care and respect throughout the process</li> </ul>
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4	Two anonymous case examples	Angela Van-Den-Bogerd	15	<ul style="list-style-type: none"> <li>○ Describe high level process when fraud is suspected: Eg, P&amp;BA phone call, audit, investigation, interview</li> <li>○ Case 1 Key points</li> <li>○ Case 2 Key points</li> </ul>
5	Discussion and Recommendations	James Arbuthnot / Paula Vennells	25	<ul style="list-style-type: none"> <li>○ Opportunity for the MPs to express their thoughts.</li> <li>○ JA to propose the idea of a “Forensic Audit”</li> <li>○ PV to offer a review of the individual cases relevant to each the MP and get view on the best way of doing this.</li> </ul>
6	Conclusion and next steps	Alice Perkins	5	<ul style="list-style-type: none"> <li>○ Gain consensus of views</li> <li>○ Agree next steps</li> <li>○ Finally, I’d like to offer an invite to visit our Model Office to understand in more detail how things work and to learn about the amazing things we are doing at the Post Office.</li> </ul>



### 3. Potential Questions

Question	Response
1	<p>Why are crown staff and sub-post masters treated differently if found committing fraud</p> <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"> <li>o Three times in a three month period (or less) they receive an informal warning</li> <li>o Six times in a six month period (or less) they are interviewed</li> <li>o Nine times in a nine month period (or less) they are re-interviewed an put on an improvement plan which could lead to dismissal if no improvement is forthcoming.</li> </ul> <p><b>Criminal Investigation and Prosecution Process</b> 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	What is our view of Computer Weekly	<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	If when suspected of fraud we bar sub-postmasters from the system, how can they be expected to prove their case?	<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&amp;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-postmaster 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	Does the system allow sub-postmasters to understand why errors occurred, eg can they interrogate past transactions?	<p>Yes, they can go back and look at past transactions</p> <p>The help desk and P&amp;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 Deloitte to perform the audit?	<p>KPMG are excluded as they are Fujitsu's auditor</p> <p>E&amp;Y are excluded as they Post Office's auditor</p> <p>PWC are not recommended because not on Post Office's supplier short list, although this could be bypassed if required.</p> <p>Deloitte are on Post Office's supplier short list and have proven experience in this area</p>
6	The audit could cost in the region of £250-£500k, why so expensive?	<p>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.</p>



#### **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 with the delivery of the training being aligned to the type and size of branch and the number of people requiring training. Training commences within a classroom environment for 6 days; this is extended to 8 days classroom training for those branches offering the full range of post office products (eg DVLA, Passports etc). The classroom training is delivered in advance of the site transfer. Once the site transfer takes place the on site 6 day training commences. 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 made up of very experienced and knowledgeable Post Office employees (average length of service is in excess of 20 years) who understand the post office product / service portfolio and ways of working exceptionally well. They 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. The Field Support Team is a well established and experienced team (average length of service 25 years plus) with extensive hands on experience of post office products and services, in branch policies and processes and the Horizon system.
- 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

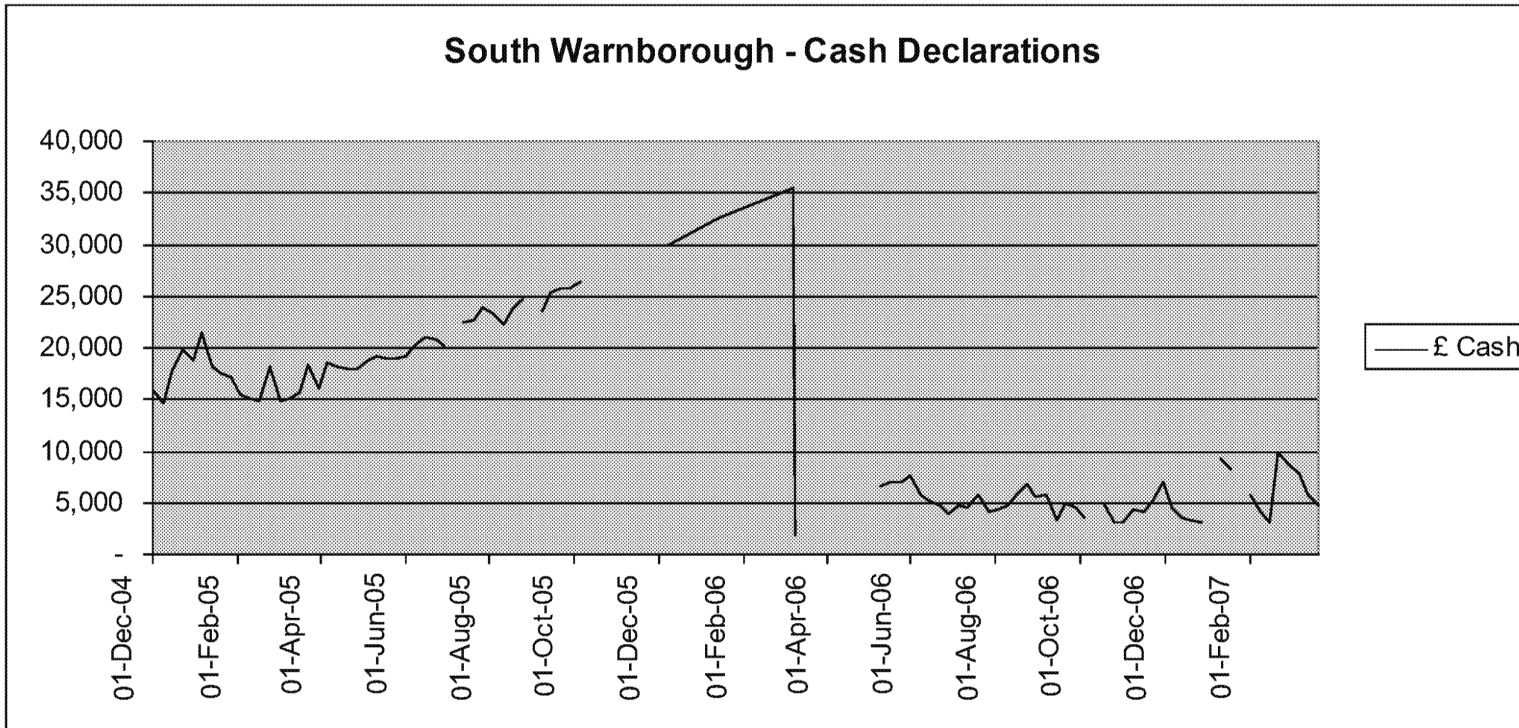
Date	Action
24/12/2001	<ul style="list-style-type: none"> <li>Josephine Hamilton (JH) begins working at the South Warnborough SPSO.</li> </ul>
21/10/2003	<ul style="list-style-type: none"> <li>JH appointed as subpostmaster (SPM).</li> <li>SPM assisted by Mrs Partridge. Mrs Partridge denies (in her statement dated 31/07/2006) having ever assisted with balancing or completed any cash declarations.</li> </ul>
1/12/2004 to 1/4/2006	<ul style="list-style-type: none"> <li>Cash held increases from £15,000 to £35,000 (See Graph at 7.2)</li> </ul>
03/02/2004	<ul style="list-style-type: none"> <li>Unidentified loss of £3,191.00. JH requested hardship payments to be set up to clear this loss. (Payment deducted from salary over a 12 month period)</li> </ul>
24/02/2005	<ul style="list-style-type: none"> <li>Unidentified loss of £750.00. JH requested hardship payments to be set up to clear this loss.</li> </ul>
01/05/2005	<ul style="list-style-type: none"> <li>Warning letter sent to JH for rolling balance not made good (£724)</li> </ul>
01/09/2005	<ul style="list-style-type: none"> <li>Second warning letter sent to JH for rolling balance not made good (£188)</li> </ul>
05/10/2005	<ul style="list-style-type: none"> <li>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.</li> <li>Records indicate that no requests were made for replacement materials or that the CD-ROM be exchanged for a video.</li> </ul>
08/02/2006	<ul style="list-style-type: none"> <li>Branch Trading Statement for trading period 10 (13/01/06 to 08/02/2006) completed.</li> <li>Statement shows a shortage of £6.74 and cash on hand stated as being £35,515.83.</li> </ul>
06/03/2006	<ul style="list-style-type: none"> <li>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.</li> <li>SPM requested by Ms Portch to return £25,000 by 08/03/2006.</li> <li>SPM alleged to have advised a NFSP representative, Kam Matharu, that there were problems at this branch. The nature of the problems was not</li> </ul>



	<ul style="list-style-type: none"> <li>specified.</li> </ul>
07/03/2006	<ul style="list-style-type: none"> <li>SPM signed off on <b>GRO</b></li> </ul>
08/03/2006	<ul style="list-style-type: none"> <li>Excess cash holding not returned by SPM as per request.</li> </ul>
09/03/2006	<ul style="list-style-type: none"> <li>Audit undertaken. Deficiency (including cash and stock) of £36,644.89 identified by the audit team.</li> <li>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).</li> <li>SPM precautionary suspended as a result of shortfall. SPM requested to attend an interview under caution.</li> </ul>
15/03/2006	<ul style="list-style-type: none"> <li>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.</li> </ul>
12/04/2006	<ul style="list-style-type: none"> <li>Second letter sent to SPM regarding interview.</li> </ul>
21/04/2006	<ul style="list-style-type: none"> <li>Agreed interview will take place on 05/05/2006.</li> </ul>
05/05/2006	<ul style="list-style-type: none"> <li>Interview conducted by POL under caution at offices of the SPM's solicitors.</li> <li>POL provided disclosure of documents to be put to the SPM in the course of the interview. Includes cash declarations and branch trading statements.</li> <li>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.</li> <li>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.</li> <li>Interview concluded at 13.32pm.</li> </ul>
11/10/2006	<ul style="list-style-type: none"> <li>Decision taken to prosecute for theft.</li> </ul>
30/10/2006	<ul style="list-style-type: none"> <li>Summons issued requiring the SPM to attend before the Aldershot Magistrates Court.</li> </ul>



09/10/2007	<ul style="list-style-type: none"><li>Defence offers pleas to false accounting by way of mitigation.</li></ul>
19/11/2007	<ul style="list-style-type: none"><li>Hearing before Winchester Crown Court.</li><li>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.</li></ul>
04/02/2008	<ul style="list-style-type: none"><li>SPM sentenced to 12 month Community and Supervision Order.</li></ul>
18/02/2008	<ul style="list-style-type: none"><li>Cheque for £37,644.89 received from the SPM.</li></ul>





## **8. Example Case 2**

The defendant Tracey Ann Merritt (D.O.B. [GRO ]) had been employed as a Post Mistress for over four years. Ms Merritt worked at the Yetminster Post Office, but also operated an outreach Post Office at Chetnole.

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

Mr Constant and Mr Gilding arrived at Yetminster Post Office at 8:30am and introduced themselves to Miss Lisa Porter, the daughter of Ms Merritt 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. Ms Merritt 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 Ms Merritt to arrive, Mr Constant logged onto the Horizon system for the Yetminster 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 Chetnole branch, using the user ID BC0001. No other action was taken until Ms Merritt was presents in the branch.

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

Before t he audit commenced Ms Merritt 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, Ms Merritt 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. Ms Merritt 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). Ms Merritt 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.



Ms Merritt 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, Ms Merritt 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 Ms Merritt that he should expect to find the cash at least £9500 short when it was counted, she confirmed that was correct.

Yetminster 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
<hr/>			
£ 8415.27			Total Shortage

Chetnole 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
<hr/>			
£ 3471.55			Total Shortage

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

Ms Merritt 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 Ms Merritt's contract for services on the 29<sup>th</sup> September 2011. Ms Merritt 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 28<sup>th</sup> September 2011 for a personal matter, confirming what she had advised the auditors at the office that day.



On Monday 3<sup>rd</sup> October 2011 Ms Merritt 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. Ms Merritt confirmed that she was receiving legal advice and that she would contact him once she had done this.

On the 5<sup>th</sup> October 2011 Mr Thomas requested and received a personal printout from HR for Ms Merritt.

Whilst awaiting to hear from Ms Merritt, Mr Thomas continued to progress aspects of the case such as PNC results etc. Following a further telephone conversation, Mr Thomas wrote to Ms Merritt again confirming that e 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 9<sup>th</sup> 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 Ms Merritt and the interview commenced at 13.18 hrs in accordance with PACE. During the interview Ms Merritt 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 (Ms Merritt) on the 17<sup>th</sup> 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 Ms Merritt at the time of the interview).
4. When asked, Ms Merritt 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. Ms Merritt 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 Chetnole from Yetminster and had not been able to officially transfer the money as she had no barcodes to do it. Ms Merritt conceded that even if that was the case, the two branches would not balance and t he amount still would have been short. Mr Thomas asked why would Catherin Early advised POL about the shortages if they were not true?



And was she, therefore suggesting that Ms Early was lying? To which Ms Merritt 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, Ms Merritt 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.

The loss to POL was £11,886.77 and Ms Merritt gave a signed undertaking to repay £9,500 within 14 days of her interview on the 9<sup>th</sup> November 2011.



### 9. List of MPs

Title	FirstName	Surname	Party	Constituency	Correspondence	Shoosmith Case	Case
Mr	Andrew	Bridgen	Conservative	North West Leicestershire	No		
Mrs	Annette	Brooke	Liberal Democrat	Mid Dorset and North Poole	No		
Rt Hon	Nick	Brown	Labour	Newcastle upon Tyne East	No		
Rt Hon	Simon	Burns	Conservative	Chelmsford	No		
Mr	Dan	Byles	Conservative	North Warwickshire	No		
Rt Hon Sir	Menzies	Campbell	Liberal Democrat	North East Fife	No		
Rt Hon	Greg	Clark	Conservative	Tunbridge Wells	No		
Mr	David	Crausby	Labour	Bolton North East	No		
Mr	Jonathan	Djanogly	Conservative	Huntingdon	<b>2010</b>		Mrs Jenny O'Dell at Great Staughton PO
Mr	Richard	Drax	Conservative	South Dorset	No		
Mrs	Louise	Ellman	Labour/Co-operative	Liverpool Riverside	No		
Mr	Paul	Flynn	Labour	Newport West	No		
Mr	Edward	Garnier	Conservative	Harborough	No		
Mrs	Mary	Glendon	Labour	North Tyneside	No		
Mr	Dai	Havard	Labour	Merthyr Tydfil and Rhymney	No	Y	Lynne Prosser at Merthyr Tydfil PO
Mr	Stephen	Hepburn	Labour	Jarrow	<b>2011</b>		Mrs Carol Ridell at East Boldon PO
Rt Hon	Nick	Herbert	Conservative	Arundel and South Downs	No		
Ms	Glenda	Jackson	Labour	Hampstead and Kilburn	No		
Mr	David	Jones	Conservative	Clwyd West	<b>2009</b>		Alan Bates at Craig-y-Don PO
Rt Hon	Greg	Knight	Conservative	East Yorkshire	No		
Mr	Edward	Leigh	Conservative	Gainsborough	<b>2009</b>		Shirley Rayner at Glenthams PO
Rt Hon	Oliver	Letwin	Conservative	West Dorset	<b>2011</b>		Tracey Ann Merritt at Yetminster PO
Mr	Jonathan	Lord	Conservative	Woking	<b>2010</b>		Mrs Seema Mishra at West Byfleet PO



Mrs	Karen	Lumley	Conservative	Redditch	No	Y	Julian Wilson at Astwood Bank PO
Ms	Anne	Milton	Conservative	Guildford	No		
Ms	Tessa	Munt	Liberal Democrat	Wells	No		
Rt Hon	George	Osborne	Conservative	Tatton	2010	Y	Mr Walters at Hockley PO Scott Darlington at Alderley Edge PO
Ms	Priti	Patel	Conservative	Witham	No		
Mr	David	Ruffley	Conservative	Bury St Edmunds	No		
Mr	Keith	Simpson	Conservative	Broadland	No		
Mr	Iain	Stewart	Conservative	Milton Keynes South	No		
Mr	Graham	Stuart	Conservative	Beverley and Holderness	2011		Mrs Christine Johnson at Withersea PO
Mr	Andrew	Tyrie	Conservative	Chichester	No		
Mr	Ben	Wallace	Conservative	Wyre and Preston North	No		
Miss	Jenny	Willott	Liberal Democrat	Cardiff Central	No		
Mr	Mike	Wood	Labour	Batley and Spennings	No		
Mr	Iain	Wright	Labour	Hartlepool	No		

MP	Constituency	Sub Type	Open	Temp Closed	Grand Total
Bridgen, Andrew (Con)	North West Leicestershire	Outreach	2	1	3
		Sub PO	19	1	20
	North West Leicestershire Total			21	2
Brooke, Annette (LD)	Mid Dorset and North Poole	Sub PO	14		14
	Mid Dorset and North Poole Total		14		14
Brown, Nicholas (Lab)	Newcastle upon Tyne East	Franchise	1		1
		Local	1		1



		Sub PO	6	6
	Newcastle upon Tyne East Total		8	8
Burns, Simon (Con)	Chelmsford	Franchise	1	1
		Local	1	1
		Sub PO	8	8
	Chelmsford Total		10	10
Byles, Daniel (Con)	North Warwickshire	Local	1	1
		Outreach	1	1
		Sub PO	18	18
	North Warwickshire Total		20	21
Campbell, Menzies (LD)	North East Fife	Franchise	1	1
		Local	1	1
		Outreach	4	4
		Sub PO	27	28
	North East Fife Total		33	34
Clark, Greg (Con)	Tunbridge Wells	Crown	1	1
		Local	2	2
		Outreach	1	1
		Sub PO	16	16
	Tunbridge Wells Total		20	20
Crausby, David (Lab)	Bolton North East	Crown	1	1
		Sub PO	10	10
		Bolton North East Total		11
Djanogly, Jonathan (Con)	Huntingdon	Franchise	2	2



		Local Sub PO	3 16		3 16
	Huntingdon Total		21		21
Drax, Richard (Con)	South Dorset	Franchise	1		1
		Outreach Sub PO	3 18	1	3 19
	South Dorset Total		22	1	23
Ellman, Louise (Lab)	Liverpool, Riverside	Crown	2		2
		Franchise	1		1
		Main	1		1
		Sub PO	6	3	9
	Liverpool, Riverside Total		10	3	13
Flynn, Paul (Lab)	Newport West	Crown	1		1
		Sub PO	15	1	16
	Newport West Total		16	1	17
Garnier, Edward (Con)	Harborough	Franchise	3		3
		Sub PO	11		11
	Harborough Total		14		14
Glindon, Mary (Lab)	North Tyneside	Franchise	2		2
		Local	1		1
		Sub PO	18		18
	North Tyneside Total		21		21
Havard, Dai (Lab)	Merthyr Tydfil and Rhymney	Crown	1		1
		Sub PO	22	1	23
		Merthyr Tydfil and Rhymney Total		23	1



Hepburn, Stephen (Lab)	Jarrow	Franchise	1	1
		Sub PO	13	13
	Jarrow Total		14	14
Herbert, Nick (Con)	Arundel and South Downs	Outreach	1	1
		Sub PO	27	28
	Arundel and South Downs Total		28	29
Jackson, Glenda (Lab)	Hampstead and Kilburn	Crown	3	3
		Main	1	1
		Sub PO	7	7
Hampstead and Kilburn Total		11	11	
Jones, David (Con)	Clwyd West	Franchise	1	1
		Outreach	10	10
		Sub PO	21	22
Clwyd West Total		32	33	
Knight, Greg (Con)	East Yorkshire	Crown	1	1
		Outreach	7	7
		Sub PO	24	25
East Yorkshire Total		32	33	
Leigh, Edward (Con)	Gainsborough	Franchise	2	2
		Outreach	12	12
		Sub PO	26	27
Gainsborough Total		40	41	
Letwin, Oliver (Con)	West Dorset	Franchise	1	1
		Local	1	1
		Outreach	7	7



		Sub PO	31	4	35
	West Dorset Total		40	4	44
Lord, Jonathan (Con)	Woking	Franchise	1		1
		Sub PO	9	1	10
	Woking Total		10	1	11
Lumley, Karen (Con)	Redditch	Crown	1		1
		Sub PO	9		9
	Redditch Total		10		10
Milton, Anne (Con)	Guildford	Crown	1		1
		Local	1		1
		Sub PO	15		15
Guildford Total		17		17	
Munt, Tessa (LD)	Wells	Franchise	2		2
		Outreach	3	1	4
		Sub PO	21	2	23
	Wells Total		26	3	29
Osborne, George (Con)	Tatton	Franchise	1		1
		Outreach	1		1
		Sub PO	15		15
Tatton Total		17		17	
Patel, Priti (Con)	Witham	Local	1		1
		Outreach	1	1	2
		Sub PO	18		18
Witham Total		20	1	21	
Rutley, David (Con)	Macclesfield	Crown	1		1
		Sub PO	12	2	14



	Macclesfield Total		13	2	15
Simpson, Keith (Con)	Broadland	Outreach	1	5	6
		Sub PO	31	5	36
	Broadland Total		32	10	42
Stewart, Iain (Con)	Milton Keynes South	Franchise	1		1
		Sub PO	12		12
	Milton Keynes South Total		13		13
Stuart, Graham (Con)	Beverley and Holderness	Crown	1		1
		Outreach	2		2
		Sub PO	28	1	29
	Beverley and Holderness Total		31	1	32
Tyrie, Andrew (Con)	Chichester	Crown	1		1
		Local	1		1
		Outreach	4	1	5
		Sub PO	23	3	26
	Chichester Total		29	4	33
Wallace, Ben (Con)	Wyre and Preston North	Crown	1		1
		Outreach	2		2
		Sub PO	16	3	19
	Wyre and Preston North Total		19	3	22
Willott, Jenny (LD)	Cardiff Central	Crown	1		1
		Main	1		1
		Sub PO	8	1	9
	Cardiff Central Total		10	1	11



Wood, Mike (Lab)	Batley and Spen	Sub PO	12	1	13
	Batley and Spen Total		12	1	13
Wright, Iain (Lab)	Hartlepool	Crown	1		1
		Sub PO	11		11
	Hartlepool Total		12		12
Grand Total			732	45	777



## 10. Cases in MPs Constituencies

### 10.1 Shoosmith Cases

3 of the 5 Shoosmith cases formally notified to POL fall within the constituencies of one of the 37 MPs due to attend the meeting:-

Branch	Subpostmaster	Constituency	MP	Party
Alderley Edge PO	Scott Darlington	Tatton	George Osborne	Conservative
Astwood Bank PO	Julian Wilson	Redditch	Karen Lumley	Conservative
Merthyr Tydfil PO	Lynne Prosser	Merthyr Tydfil and Rhymney	Dai Havard	Labour

#### Scott Darlington

SPM was appointed on 25 March 2005.

Audit carried out on 12 February 2009. SPM suspended for inflating on-hand cash declarations by c.£44k.

Pleaded guilty to 5 counts of false accounting based upon cash declarations made between September 2008 and February 2009.

Debt of c.£44k remains outstanding in full.

Letter before action sent by Shoosmiths on 16 August 2011. It is alleged by the SPM that he was compelled to make the false declarations by virtue of economic duress and that the offences resulted from the unfairness of the system devised for use by SPM's and/or as a result of errors generated by the Horizon system itself. As a result, the SPM claims that POL was not entitled to terminate his appointment and consequently POL is liable for the wrongful termination of his contract. The SPM claims damages of c.£150k.

It is alleged that (a) the training provided was inadequate, (b) the helpline provided by POL was unfairly difficult to access due to both its hours of operation and the insufficiency of operators to deal with the level of demand placed on the service, (c) the Horizon system suffers with inherent defects and/or an unfair system of operation and (d) the standard operating procedures used by POL make it impossible to properly reconcile errors.

Liability has been denied on the basis that the SPM can have no claim for wrongful termination in circumstances where he has committed fraud. POL has not responded to each individual allegation.

There has been no correspondence on this matter since December 2011.



There are no live court proceedings in play.

#### **Julian Wilson**

- SPM was appointed on 6 November 2002.
- In or around May 2003 an audit took place. A small discrepancy was found and made good.
- On 11 September 2008 a further audit took place. The auditors were advised that there would be a shortfall of c.£27k. A shortfall of £27,811.98 was identified and the SPM was suspended.
- On 15 June 2009 the SPM pleaded guilty to two charges of false accounting. He was made subject to a confiscation order and the debt has been paid in full.
- Letter before action sent by Shoosmiths on 23 August 2011. The issues raised in that letter are more or less identical to those set out in Darlington.
- Liability has been denied on the same basis as in Darlington.
- There has been no correspondence on this matter since December 2011.
- There are no live court proceedings in play.

#### **Lynne Prosser**

- SPM between June 1997 and 7 July 2005. Prior to this she had been an employee of POL working as a cashier and substitute / relief manager in a Crown PO.
- It appears that the branch was audited on 23 September 2004. The total amount of the discrepancies stood at £425k. She was suspended and ultimately terminated by letter dated 19 January 2005.
- The SPM was interviewed under caution in respect of allegations of theft. It does not appear that any criminal proceedings were commenced.
- The SPM appealed the decision to terminate her contract and it appears that she was re-instated, albeit she remained on suspension. It also appears that POL wrote to her on 30 June 2005 inviting her to resign, which she did on 14 July 2005.
- Court proceedings were commenced in June 2011 and served on POL in October 2011. A letter before action was served on 23 December 2011. The allegations made are in almost identical terms to the claims made in both the Darlington and Wilson cases.
- This claim has been struck out on the basis of procedural error and the SPM is now time barred from bringing any future claims.

### **10.2 MPs Correspondence Cases**

#### **Edward Leigh MP re Shirley Rayner at Glenthams**

- Mrs Rayner was appointed on 27 September 2007



- She received five days classroom training and six days on-site support
- Mrs Rayner wrote to Lynn Hobbs on 15 April 2008 regarding 3 x Transaction Corrections she had received for £100 each and provided evidence to support these
- She also alleged that there was a lack of support when challenging TCs – no mention was made about the Horizon system at this time
- Her letter was passed to Shaun Turner in the Network Coordination Team who passed the matter to Chesterfield for resolution
- Mrs Rayner wrote in again in July 2008, December 2008 and February 2009 to say that she hadn't received a response
- Sarah Howard contacted Mrs Rayner in December to apologise as Shaun Turner had been led to believe that the matter had been resolved when it had first been raised
- A full response was sent to Mrs Rayner on 27 March 2009 along with a cheque for £100 as a refund of one of the TCs (she admitted the other two were probably her error)
- Further letters were sent to Mrs Rayner by P&BA in May 2009 regarding £150 in missing Savings Stamps; the letters imply that Mrs Rayner was abusive during her phone call which was then terminated by the operator
- Mrs Rayner was precautionary suspended on 17 August 2009 due to a £2,132.68 shortage at audit
- We were unable to appoint a temporary subpostmaster therefore the office remained closed
- Mrs Rayner admitted inflating the cash on hand figures at the time
- Mrs Rayner resigned to avoid termination on 23 August 2009; Karen Arnold was the Contracts Manager dealing with the case
- In Mrs Rayner's resignation letter she stated that she had a lack of confidence in the Horizon system; that requests for assistance with discrepancies & TCs had been refused and she had been told to sort matters out herself; requests for additional training had been turned down and that a lack of ongoing support from POL had caused her considerable stress and had a detrimental effect on her business and family life. Mrs Rayner asked that all the equipment be removed as the premises were not available for continued use as a post office®
- Mrs Arnold acknowledged the resignation letter on 25 August 2009
- The branch was closed and defunded on 27 August 2009
- A further letter was received from Mrs Rayner on 8 September 2009 stating her disappointment with Mrs Arnold's response as it did not address the reasons for her resignation; nor any reference to the hard work she had put in at the branch. Mrs Rayner also claimed that she was entitled to a three-month notice period; she also requested a breakdown of the auditor's findings, particularly in relation to the missing cheque and stock.
- A full response was sent on 23 September 2009
- A further letter was received by Mrs Rayner on 14 October 2009 stating that she had called the NBSC and had been told to sort things out herself. Mrs Rayner also reiterated that she should receive a three-month notice period and was, therefore, entitled to three months' pay
- A response was provided on 28 October 2009

**Rt Hon George Osborne regarding Mr Walters at Hockley**

- Mr Walters took over Hockley Post Office® branch on 4 May 2004 but didn't open until the following morning



- Mr Walters had five days classroom training and six days on-site support
- A post appointment visit conducted on 10 June 2005 identified a gap in the spmr's knowledge regarding balancing
- Ad hoc training was arranged to cover balancing and cash accounts
- Delivery staff at the office raised security concerns in August 2005 due to the numbers of remittances being received via special delivery
- Janet Walters confirmed that this was due to the office being a pre-order office for currency so they were having a few special deliveries coming through for this; she also said the office had ordered additional cash due to making more cash payouts
- The office was advised to check their planned orders and increase the delivery amount this way
- A second post appointment visit on 1 August 2005 stated that the cash and suspense accounts were ok and that the person visiting had shown the subpostmaster the correct way to declare cash each night and instructed him on dealing with error notices
- Spmr placed a contact request with the NBSC on 15 November 2007 to discuss discrepancies on his balance from June 2006. The BDM, Julie Pollard, had already sorted the matter out when the branch was contacted
- Mr Walters was suspended on 29 November 2007 and a suspension letter was sent to him on the same day by Paul Williams, Contracts Manager
- Mr Walters was suspended due to a £14,136.47 shortage at audit
- The branch re-opened on 30 November 2007 with a temporary spmr
- Michael Haworth, Contracts Manager, was asked to take on the conduct case on 11 December 2007
- A letter was sent to Mr Walters on 15 January 2008 asking Mr Walters if he wanted a personal interview to discuss the issues – a response was required by 25 January 2008
- Mr Walters replied on 18 January 2008 requesting an interview
- A further letter was sent to Mr Walters on 22 January 2008 inviting him to interview on 1 February 2008 at Stockport Area Office; Mr Walters confirmed he would be attending on 30 January 2008
- Mr Walters made a contact request via the NBSC on 23 January 2008 saying he needed to check some figures that Michael Haworth had given him; this was sent to Michael for response
- Mr Walters returned a signed copy of the interview notes on 7 February 2008
- A letter was sent to Mr Walters on 14 February 2008 terminating his contract on the grounds of falsifying post office accounts and failing to make good losses. Mr Walters was given the opportunity to appeal the decision but had to do so by 29 February 2008
- As no appeal request was received Michael Haworth sent a letter to Mr Walters on 6 March 2008 advising him that he had lost his right to appeal and asking Mr Walters his intentions regarding the use of his premises
- Mr Walters wrote to Michael Haworth on 8 March 2008 saying that he disagreed with the decision to terminate his contract and that when he took over the branch he was vetted and found to have no criminal record; he also sent a list of grievances and disputes
- Michael Haworth replied on 17 March 2008 stating that Mr Walters' case had been dealt with in line with NFSP procedures. Mr Haworth also stated that an independent investigation was being conducted, separate to the conduct case, by Steve Bradshaw, with regard to the criminal issues and outstanding monies
- The branch closed on 17 September 2008 under the Network Change Programme



- A request was made on 29 September 2009 by Clive Burton, Former Agents Debts, for a copy of the “acknowledgement of employment” slip signed by Mr Walters at the time of his appointment. Clive’s email stated that the matter had been referred to Legal Services due to a large deficiency in Mr Walters’ accounts and the fact that no proposal for repayment had been made
- The letter sent by Michael Haworth on 15 January 2008 states that Mr Walters “admitted inflating the cash on hand figure by £3,400 for the previous two trading periods, and entering a fictitious £5,500 outward rem onto Horizon on 7 November 2007”. Mr Walters had also been charged with declaring his stock incorrectly in his 28 November 2007 trading statement and had made 63 entries for spoilt postage
- Issues were raised in July 2006 regarding the mails integrity letter that was sent out; the spmr made a contact request for someone to explain the letter to him. The Helpline subsequently talked him through how to do the mail compliance and print off the relevant receipts
- The BDM, Julie Pollard, had concerns about the temporary spmr and terminated his contract when he went on holiday on 22 February 2008. As no other temporary spmr could be found at the time the office was due to be temporary closed and defunded on this date
- A temporary spmr was found to run the branch and transferred to him on 22 February 2008