

Witness Name: Alison Jane Clark
Statement No.: WITN 0366_1
Exhibits: WITN 0366_1/1 – WITN 0366_1/15
Dated: 21st July 2022

THE POST OFFICE HORIZON IT INQUIRY

First Witness Statement of Alison Jane Clark in the Post Office Horizon IT Inquiry

I, **ALISON JANE CLARK**, of 1 Future Walk, Chesterfield S49 1PF, **SAY AS FOLLOWS:**

1. My name is Alison Jane Clark. I have been employed by Post Office Limited ("**POL**") since 7 February 2000.
2. Except where I indicate to the contrary, the facts and matters contained in this witness statement are within my own knowledge. Where any information is not within my personal knowledge, I have identified the source of my information or the basis for my belief. The facts in this witness statement are true to the best of my knowledge and belief.
3. In this statement I use the term "Postmaster" to refer to those individuals, companies and partnerships who/which are responsible for running branches in the Post Office network pursuant to contracts with POL, but excluding those individuals who are directly employed by POL to work in branches that are directly managed by POL. Depending on the context, references to "the Postmaster" should be read as referring to or including, as appropriate, the Postmaster's staff and/or representatives.

4. At the time of the teach-in sessions, I was the Head of Network Monitoring and Reconciliation at POL. In this role I headed up five support teams that sit within the Services and Support Optimisation directorate. These teams work on reconciling various aspects of Postmasters' accounts by looking at the transaction data input into the Horizon IT system ("**Horizon**") by branch staff and matching that data with equivalent data received from other sources. Four of my teams together make up the 'Branch Reconciliation' team (the "**BRT**"). They take follow-up action to correct or resolve any discrepancies identified through their monitoring and reconciliation activities. The other team, called the 'Network Monitoring & Support team', looks at the data entered into Horizon to spot any anomalies. If they find an anomaly, they usually start by contacting the branch to offer help and support to understand and resolve the anomaly and, where appropriate, take follow-up action. I remained in this role until 28 March 2022, when I was internally seconded to form part of the Branch Accounting and Financial Assurance team within the Business Transformation Unit that is working on the arrangements for a new IT system to replace the Horizon system. The purpose of my current role includes understanding, managing and providing assurance on the impact of replacing Horizon on the existing financial processes in the branches and within POL; supporting the design of the service model for Postmasters in relation to the new IT system; and enabling the existing service and support teams to prepare for the change to the new IT system and ways of working.
5. This witness statement has been prepared in response to the request made by the Horizon IT Inquiry (the "**Inquiry**") pursuant to Rule 9 of the Inquiry Rules 2006, dated 17 December 2021, for provision of the same or similar information

that POL previously provided to the Inquiry at a number of "teach-in" sessions between April and June 2021 (the "**Teach-In Rule 9 Request**"). While this statement is accordingly focussed on the relevant processes and/or policies that were in place at the time of the teach-in sessions, in some instances, I have referred to processes and policies that were introduced subsequently for completeness. As regards such processes and policies, this statement reflects the position as of 8 February 2022 when this statement was first provided to the Inquiry in draft.

6. In this witness statement, I set out a summary of the information that was provided to the Inquiry at the following teach-in sessions:
 - a. Teach-In Session 1: An Overview of How Auditors Complete Cash Reconciliation and Undertake Back Office Accounting. This session took place on 26 April 2021;
 - b. Teach-In Session 2: Central Accounting Processes and Practices at Post Office Ltd – How is POL Client Data Integrated Monthly with Branch Network Data? This session took place on 28 April 2021;
 - c. Teach-In Session 3: When a Postmaster Experiences a Shortfall or Would Like Assistance. This session took place on 29 April 2021; and
 - d. Teach-In Session 4: When a Postmaster is Formally Notified of a Shortfall – The Process. This session also took place on 29 April 2021.
7. In this witness statement, I address each of the questions set out in the Annex to the Teach-In Rule 9 Request, relating to the four teach-in sessions referred to above, with the exception of question 10 (relating to Teach-In Session 2). I

understand that my colleague, Russell Hancock, will provide a witness statement in response to the issues raised by that question.

8. Each of these teach-ins was held remotely, via Microsoft Teams, and led on behalf of POL largely by **GRO**, who was the Services and Support Optimisation Director and my line manager at the time. **GRO** has since left POL. I attended all four of the above teach-in sessions, as I headed up the Network Monitoring team, the national audit team and the Postmaster Account Support team ("**PAST**"). The PAST is the team that was formerly known as the 'Loss Recovery' team until September 2020. They handled the resolution of discrepancies once these have been "settled" (in this context, allocated) to the Postmaster's centralised account with POL. I address the definition of "settling" in further detail below.
9. I did not present any parts of the teach-in sessions. I was there as a subject-matter expert because I had knowledge of a number of areas across the Services and Support Optimisation directorate. In particular, I was (and remain) familiar with the role and operation of the Branch Support Centre ("**BSC**"), where I managed a team in my role as Service Support Team Leader from 2005 until 2017, when I was promoted to the role that I held at the time of the teach-in sessions, as described above.
10. Where I refer to specific documents in this statement, copies of those documents are exhibited to this statement in a series of exhibits marked '**WITN 0366_1/[X]**' and identified by the Inquiry's unique reference number for that document.

DEFINED TERMS

11. In this statement, I have used a number of acronyms and defined terms. I have set out a definition of each, as I have introduced them. However, for convenience, I also set out the definitions of these acronyms and definitions below:

AHT	Average Handling Time
ARQ Data	Automatic Repeat Request data
ASA	Audit Support Advisor
BOI	Bank of Ireland
BRT	Branch Reconciliation Team
BSC	Branch Support Centre
CIJ	The 'Common Issues' judgment <i>in Bates and Ors v Post Office Limited</i> [2019] EWHC 606 (QB)
CFS	POL's Core Financial System
CIRT	The Contract Investigation and Resolution Team. This is now known as the Tier-3 team.
Dynamics	The case management system used by the BSC, MS Dynamics 365
Horizon	The Horizon IT System
Inquiry	The Horizon IT Inquiry
NFSP	The National Federation of SubPostmasters
NMAS Policy	The Network Monitoring and Audit Support policy
PAST	The Postmaster Account Support Team
POL	Post Office Limited

TEACH-IN SESSION 1: AN OVERVIEW OF HOW AUDITORS COMPLETE CASH RECONCILIATION AND UNDERTAKE BACK-OFFICE ACCOUNTING – 26 APRIL 2021

12. On 26 April 2021, POL provided a teach-in session to the Inquiry on the way in which auditors complete cash reconciliation and undertake back-office accounting ("**Teach-In 1**").
13. The issues discussed during Teach-In 1 included:
 - a. The process by which cash and stock were checked by branch staff and the process for distinguishing between cash and stock units;
 - b. The process in place for Financial Auditing; and
 - c. Branch Hub.
14. The following paragraphs set out the main points covered by POL during Teach-in 1 in relation to these issues.

The process by which cash and stock were checked by branch staff

15. A "stock unit" on Horizon is a term used to describe a serving and accounting unit that represents the physical till, that branch staff use to serve customers. Transactions are entered onto Horizon by inputting them into a stock unit. Each stock unit may hold stock (for example, stamps), cash, or a mixture of stock and cash. Each stock unit has a corresponding set of accounting records on Horizon, which should reflect what is physically held in the stock unit. There is no distinction between stock units that hold stock or a mixture of stock and cash, and those that hold only cash. Each stock unit has a unique name on Horizon. This helps distinguish the relevant stock unit from other stock units in the branch

(if any) and gives an indication of its contents. For example, an "ATM stock unit" would typically only hold ATM cash.

16. Ordinarily a stock unit will hold both cash and stock. A member of staff at a branch will log on to Horizon and select the name of the stock unit that they wish to serve from. Sales and purchases (for example, buying back foreign currency from customers who wish to return it or completing a cash withdrawal) are usually completed within the same stock unit, and the cash within each stock unit is reconciled daily by the completion of a daily cash declaration. If the branch has cash balances in multiple stock units these are consolidated at the end of the monthly "Trading Period", when each stock unit is balanced. A "Trading Period" is a four- or five-weekly cyclical financial period, at the end of which the branch staff reconcile the cash and stock position of the branch with the corresponding position shown on Horizon by completing a "Branch Trading Statement".
17. The Postmaster Support Guide was produced by POL and provided to Postmasters following the 'Common Issues' judgment in *Bates and Ors v Post Office Limited* [2019] EWHC 606 (QB) (the "**CIJ**"). The current version of the Postmaster Support Guide was last updated in October 2021 and is at **WITN 0366_1/1**. The version of the guide as at April 2021 is at **WITN 0366_1/2**. References to specific parts, sections or extracts from the Postmaster Support Guide below are to the version of the guide as at April 2021. The Postmaster Support Guide explains the various ways in which POL can support Postmasters and/or their staff when they experience issues with the running of their branch or branches, as well as what they need to do in order to enable the relevant POL teams to provide support. It also drives best practice as it explains

how branch staff should perform various processes in a way that reduces the likelihood of discrepancies arising.

18. The daily cash reconciliation process which was in place at the time of the Teach-In Sessions has not changed and is as described in the Postmaster Support Guide (**WITN 0366_1/2**). In summary, a member of staff at a branch is required to declare on Horizon the cash holdings held in each stock unit as close as possible to, and no later than, 7pm every trading day. This information is used by the Cash Inventory Management team within POL for forecasting cash requirements for the relevant branch (that is, whether cash needs to be delivered to the branch or be sent back to one of POL's cash centres). It will also highlight if there is a discrepancy in the stock unit.
19. Section 6 of the Postmaster Support Guide (under the subheading "Remittances of Cash, Stock & Currency") provides details on the processes that Postmasters and/or their staff should adopt around receipts and checking of cash and stock. In particular, it states as follows at page 22 (**WITN 0366_1/2**):
 - *When preparing a remittance, it's worth having two members of staff on hand to double-check the contents of the pouch before sealing it, if possible*
 - *Please record the amounts being returned accurately and when receiving remittances check the amount received matches the delivery note*
 - *Please input a delivery of stock items into Horizon within 24 hours of delivery and double-check manually when inputting quantities*

20. In terms of overnight cash declarations, section 6 further states as follows at pages 19-20 (**WITN 0366_1/2**):

- *Please complete an accurate cash declaration on Horizon for all the stock units used every day as close as possible to, but no later than, 7pm. This should include any stock units that may have only been used to accept Transaction Acknowledgements or to transfer cash/stock/currency. If a stock unit is not used, or if the branch is closed on the next day, please make sure the cash declaration is the last transaction on Horizon that day*
- *During the declaration, please declare notes and coins against the correct denomination – any damaged or mutilated notes should be declared as ‘unusable’. Your cash declarations need to be accurate and a true reflection of the cash held in branch – otherwise it’s difficult to plan cash for your branch and to provide support if any discrepancies are identified. After you’ve completed your declaration, use the variance check function – this makes sure you are identifying any potential discrepancies on the day they happen*

21. POL also provides additional advice, service support and training to branch staff in relation to the process by which cash and stock are checked. I understand that my colleague, Russell Hancock, will explain this process in more detail.

22. Based on information provided by my colleague Drew Mason, who is a Service and Support Data Analyst at POL, I understand that, for the period between 30th March 2020 and 2nd May 2021, POL's systems received cash data from 10,484 branches on average, per day. Of these, on average, 9,271 were

"complete" cash declarations, which means that the branch staff had undertaken the cash reconciliation process and declared the cash holdings for the full suite of stock units in that branch via Horizon. The remainder of the 10,484 figure (that is, 1,213) is made up of cash data that was automatically generated and sent by Horizon in circumstances where branch staff have not completed the cash reconciliation process (or have only partly completed it – i.e. on some stock units at the branch, but not all), representing the amount of cash held by the branch according to the records on Horizon. As part of our Network Monitoring activity, when we see that a branch has not completed a cash declaration for a certain number of days we would reach out to the branch to try to ascertain why and offer support.

Financial Auditing

23. The purpose of "financial auditing" is to help ensure the accuracy of branch accounting records relating to cash and stock and to help maintain the integrity of cash and stock in the POL network. A financial audit may be triggered by a number of events, for example: a significant discrepancy coming to light, the closure of a branch or its transfer to a new Postmaster, an incident at the branch such as a robbery, an issue around missing cash or stock raised by the branch staff or a whistleblowing complaint in respect of the branch. In addition, a financial audit may be triggered if the POL Network Monitoring team, which carries out ongoing monitoring of the accuracy of the cash and stock records across the branch network, is unable to assure the accuracy of a particular branch's records.
24. If the POL Network Monitoring team identifies an issue with the accuracy of a branch's records, POL might offer a combination of support options to a branch

to help rectify the issue. One such example is a "SPEAR" visit, intended to "Support, Prevent, Educate, Advise and Resolve" any outstanding issues relating to the branch accounting. This is a supportive face-to-face visit that is conducted at a pre-arranged date and time if the POL Network Monitoring team and the Postmaster both agree that it would be beneficial to encourage accurate accounting in branch. However, if POL Network Monitoring team cannot verify the accuracy of certain branch accounting records, POL may then carry out a financial audit. The basic system of carrying out financial audits in branch pre-dates the CIJ.

25. In summary, the process followed for a financial audit as at April 2021 (which has not changed significantly since then) is as follows:
- a. An Audit Support Advisor ("**ASA**") would be assigned to lead the financial audit. This allocation would primarily be based on geographical proximity.
 - b. The ASA's preliminary data gathering exercise would be informed by an 'Audit Rationale Document' prepared by the Network Monitoring team – this would set out the issues that have been identified at the branch and so help define the scope and focus of the audit.
 - c. The ASA would then typically have an initial conversation with the relevant Postmaster or its representative, based on the Audit Rationale Document, and seek to agree a date and time to visit the branch in order to conduct the audit. As at April 2021, audits were generally pre-arranged in this way. Under the relevant POL policy (which I describe at paragraph 32.a below), there is an option to carry out an unannounced

audit, should the need arise (for example, if there is a whistleblowing incident). However, at the time of the Teach-In Sessions, there were strict Health and Safety rules relating to Covid-19, which meant that the audit had to be pre-arranged with the Postmaster or their staff. This requirement still applies today. Before Covid-19, audits would have generally been undertaken on unannounced visits to the branch.

- d. On the day of the financial audit at the branch, the lead ASA would be accompanied by at least one other ASA, depending on the size of the branch, to conduct a physical count of the cash and stock held in the relevant branch and manually record the figures on count sheets.
- e. The lead ASA would then transfer the figures from the cash and stock count sheets onto POL's Audit Reporting Tool at the end of the audit.
- f. A copy of the final audit report would be emailed to the Postmaster or their representative at the audit. The lead ASA would retain the manual records of the cash and stock counts for 60 days and a copy of the final audit report would also be uploaded onto the 'Network Services' SharePoint site, which is accessible to many of the POL support teams.
- g. All data/reports accessed at the branch during a financial audit would be made available to the Postmasters and/or their staff. The reports used for a financial audit are those listed in the 'Checklist for Audit and Support Advisors' at **WITN 0366_1/3**. These reports are printed from Horizon and therefore are available to Postmasters and/or their staff.

26. In advance of a financial audit, the ASA also requests reports on the following, where relevant:

- a. Stock Enquiry: in particular, have all dispatched stock pouches been received and correctly entered onto Horizon?
 - b. Cash Enquiry: in particular, have all pouches dispatched been received, are cash declarations being made daily, is the branch meeting planned order instructions? In this context, "planned order instructions" means instructions from POL's Cash Inventory Management team to the branch staff to return surplus cash understood to be held at the branch (based on the information recorded on Horizon) to the POL cash centre by completing a return remittance of cash, so that the amount of cash held in branch is in line with POL's forecast for that particular branch's cashflow requirements. Before an audit, an ASA would look at the cash remittance and supply records in order to check whether the branch had complied with any previous instructions to remit surplus cash. This would inform their initial view going into the audit as to the amount of cash expected to be held in the branch.
 - c. ATM Enquiry: in particular, have the relevant entries been entered on Horizon?
 - d. Lottery check: using the Audit Support Portal, POL can confirm whether scratch-card sales are being entered onto Horizon regularly.
27. None of these specific reports are directly available to Postmasters and/or their staff, but the underlying information is available to them and they can contact the BSC for help if they have any queries regarding how to access and understand similar transactional and accounting information on Horizon. These

reports assist the ASA to identify any additional training to be provided to the branch staff, as a result of the audit findings.

28. Generally speaking, the ASAs have no additional user capability than branch staff in relation to Horizon. The only exception is in relation to the "Global User ID" (to which the ASAs have access, but branch staff do not). The "Global User ID" is issued for two specific actions:

- a. To add a SmartID (Horizon unique log on) at Clerk-, Supervisor- or Manager-level to any Horizon terminal in a branch. At an audit, a SmartID can only be added by someone with a "Manager" level SmartID already in a branch. If no one is present with a SmartID at Manager level, the ASA would use their "Global User ID" to add their own ID to the system.
- b. Once the audit is complete, the ASA would log on with their "Global User ID" to post the discrepancy at the audit (so this is moved to the Postmaster's centralised account). There are two buttons: Surplus or Deficit. Neither of these buttons is available to the Postmaster and/or their staff – by using these buttons, the ASA ensures that the discrepancy is shown as an audit result in the Postmaster's centralised account.

29. The ASAs do not comment on the likely outcome of an audit. Upon arrival, the "Reason for Audit" script is used to explain the reason for the audit and the Audit Rationale Document is used to support this conversation.

30. Following a financial audit:
- a. The ASA will invite the Postmaster or their representative to check the figures independently;
 - b. The ASA will prepare any excess cash or withdrawn stock for removal from branch;
 - c. The Horizon records will be adjusted to reflect what cash, stock and currency is physically in the branch;
 - d. The Closing Script is used to discuss any discrepancy found during the audit with the Postmaster or their representative in order to ascertain their understanding of the reason for it and to allow them to provide feedback and/or ask any questions;
 - e. The discrepancy will be moved to the Postmaster's centralised account;
and
 - f. In the event that the Postmaster or their representative wishes to dispute a discrepancy, the ASA will advise them as to how this can be done. If the Postmaster or their representative decides to request a review or dispute the discrepancy then it will proceed through the discrepancy investigation process that is explained below.
31. If an irregularity is identified in the operation of the branch, including discrepancies over a certain amount, the Contracts Team may be made aware of the issue so that they can advise on any necessary next steps. The Contract Advisor may also be required to decide whether it is necessary to suspend the Postmaster's contract as a result of the irregularity (following the principles set out in the Postmaster Contract Suspension policy).

32. POL has introduced a number of key changes to the financial auditing process since March 2019. In particular:

- a. **January 2021:** The Network Monitoring and Audit Support policy (the "NMAS policy") at WITN 0366_1/4 was approved. This policy provides guidance on the activities undertaken by the Network Monitoring team (which used to be called the Branch Analysis team before the CIJ) and the Audit Support team. Since the CIJ, the Network Monitoring team has become more open and transparent. In particular, when the Network Monitoring team sees data that could indicate an issue or risk, they now tend to speak with the Postmaster and/or their staff directly in the first instance to resolve the issues, rather than initiating a financial audit to verify the position. In other words, there are additional steps now in the support processes available to Postmasters and/or their staff and the approach taken is more collaborative as between POL and the Postmasters or their representative to reach a solution. This policy also introduced technical changes to how the audits are carried out and documented. Scripts have been introduced for the opening and closing conversations with branch staff. Further, whereas audits may previously have been undertaken by one auditor, the policy now requires at least two members of the audit team to be on-site for the audit, with one person doing the counts and the other person double-checking in tandem. There is also an option for the Postmaster to undertake his/her/its own checks. These changes are reflected in the relevant audit policy and procedure documentation. The objective of these changes is also to open up discussions with the Postmaster and/or their

representative at an earlier stage. At every stage in the process, the audit is designed to coach the branch staff on best practice, know-how, further support, etc. If there is a real need for more substantial intervention (such as further training for example) then the audit team will arrange for it.

- b. **April 2021:** The job description for an ASA, defining the knowledge and capability required to undertake the role, was revised in order to formalise the changes to the role that had already taken effect during the course of 2019 and 2020, including as a result of the NMAS policy.
- c. **May 2021:** The Audit team moved into the "Franchise Partnering" business unit, such that they now work directly alongside other field-based teams, in order to best provide proactive support to Postmasters and/or their staff in relation to the maintenance of the Postmaster's accounts. The number of ASAs was reduced from 30 to 18 as the increase in proactive support to branch staff reduced the need for the reactive risk-based audits from the past.
- d. **May 2021:** As a direct result of feedback from the National Federation of SubPostmasters ("**NFSP**"), when POL is arranging an audit, it now invites the Postmaster first to contact a NFSP representative (if they wish) for support and advice prior to the audit taking place.
- e. **December 2021:** The NMAS policy was further reviewed in December 2021 and shared with the NFSP for their feedback.

"Settling"

33. "Settling" is the process by which a Postmaster and/or their staff would deal with a discrepancy at the end of a Trading Period. It enables the branch's trading position within Horizon to be reset by neutralising the discrepancy for the purposes of the Horizon records so that the branch is able to move on to the next Trading Period. Settling does not necessarily mean that the Postmaster has to put in money to make good the discrepancy. It can be achieved by various means.
34. In particular, up until 13 May 2021, "Settling Centrally" was an option available to branch staff on Horizon. This moved a discrepancy into the Postmaster's centralised holding account with POL at the end of the Trading Period in question (or at the end of a financial audit). Branch staff could then dispute the discrepancy, if they wished, which would trigger POL's investigation and support processes. The "Settle Centrally" option was only available to branch staff where total discrepancy they wished to settle was more than £150. The £150 threshold was removed on 14 April 2021 and the term "Settling Centrally" was changed to "Review or Dispute" on Horizon on 13 May 2021.
35. Other forms of "settling" are:
- a. "Settling to cash": This is where a Postmaster or their representative declares a discrepancy and therefore puts in, or takes out, the amount of the discrepancy in cash. This resolves the discrepancy on Horizon. As at April 2021 this process was known as "make good to cash".
 - b. "Settling to cheque": This is where a Postmaster or their representative declares a discrepancy and puts in a cheque for the discrepancy

amount. This also resolves the discrepancy on Horizon. As at April 2021 this process was known as "make good to cheque".

- c. "Settling to nominee": Some Postmasters are designated as "multiple" or "strategic" partners. Based on information provided by my colleague **GRO** who is the Senior Operational Improvement Manager at POL, I understand that the "settling to nominee" option is only available to our multiple / strategic partners. Settling to nominee "moves" the discrepancy, in an accounting sense, from the individual branch-level into the relevant multiple or strategic partner's Head Office account with POL.

Branch hub

36. Based on information provided by my colleague Diana Walker, who is the Branch Hub Product Owner at POL, I understand that Branch Hub is an online platform accessible by Postmasters and/or their staff that enables them to conduct a number of activities to support the running of their branches on a day-to-day basis. As at April 2021 these activities included:
 - a. Ordering coin and stock through an online marketplace interface (available to the majority of branches);
 - b. Completing Fit and Proper declarations online;
 - c. Amending opening hours in response to COVID-19;
 - d. Reporting IT issues and requesting investigation by the POL IT support team, for example, in relation to issues with the functioning of Horizon;
 - e. Submitting feedback and complaints in relation to the products and services that they work with, which are dealt with by the Issue Resolution

team and filtered through to the relevant team for resolution (for example, complaints about postmen not arriving on time, etc.);

f. Completing various surveys conducted by POL teams to provide feedback on topics, for example, new products or marketing initiatives; and

g. Accessing a large knowledge base with articles on how to conduct a number of in-branch activities, answers to frequently asked questions and best practice guides.

37. Based on information provided by my colleague Tracy Marshall who is the Retail Engagement Director at POL, I understand that, as at April 2021 approximately 9,500 branches were registered to use Branch Hub and the platform received approximately 6,000 visits per week. The Branch Hub team is working closely with branch staff to determine the future trajectory of the platform, with the team's efforts largely focused on the development of a "Branch Performance" feature, which has been requested by branch staff, to provide them with information and data (such as for sales and operational income/costs) relating to their branch(es). POL has now successfully trialled the provision of Sales & Remuneration data on Branch Hub. This pilot is currently live for approximately 800 Postmasters and is due to be extended to all those registered on Branch Hub in February 2022.

TEACH-IN SESSION 2: CENTRAL ACCOUNTING PROCESSES AND PRACTICES AT POL. HOW IS POL CLIENT DATA INTEGRATED MONTHLY WITH BRANCH NETWORK DATA? – 28 APRIL 2021

38. On 28 April 2021, POL provided a second teach-in to the Inquiry on the central accounting processes and practices at POL.

39. The issues discussed during Teach-In 2 included:
- a. Transaction acknowledgements and transaction corrections;
 - b. The concept of "matching";
 - c. The cash movement process, including dealing with discrepancies;
 - d. Accounting for in-branch ATMs;
 - e. Stock checks;
 - f. Identifying and correcting mis-keys; and
 - g. Dealing with Postmasters' accounts that caused losses to POL in the annual accounts.
40. The following paragraphs set out the main points covered by POL during Teach-in 2 in relation to these issues, with the exception of the cash movement process, which I understand is set out in the separate witness statement of Russell Hancock.

Transaction acknowledgments and transaction corrections

41. Horizon generates various automatic (i.e. "pop-up") notifications in relation to transactions that have been entered into Horizon. These appear on the branch's Horizon IT terminal and include:
- a. Transaction Acknowledgement: these notifications acknowledge transactions that have been carried out in that branch on the previous day via a system that is not linked to Horizon (for example, a National Lottery Terminal or Paystation Terminal). They are triggered whenever a relevant transaction has been carried out on one of those other systems. They appear on Horizon and will ask the branch to "accept" the

amount for the particular transaction, enabling branch accounts to balance. If the Postmaster or their staff accept a Transaction Acknowledgement (and transfer the corresponding cash into the stock unit) then the branch accounts on Horizon will balance.

- b. Transaction Correction: these notifications are generated where corrections need to be made to reconcile the branch accounts. This can include where inconsistencies have been:
- i. identified in the reconciliation between the data received from third party clients or suppliers (for example, the Bank of Ireland, who are POL's client in the case of ATM transactions), or POL's cash and stock centres on the one hand, and the data recorded by the branch in Horizon on the other; or
 - ii. caused by mis-keys (which I explain at paragraph 64 below) notified by the branch or a third party client / supplier.

Such inconsistencies can result in either a shortfall or a surplus showing on the relevant branch accounts. Therefore Transaction Corrections may need to be issued in order to "neutralise" the relevant shortfall or surplus. In other words, a Transaction Correction represents POL's proposed resolution of a discrepancy that has resulted out of a particular transaction. Depending on the underlying cause, a discrepancy between the record of a transaction on Horizon and the position in reality may or may not come to the attention of the branch staff straight away. Sometimes the discrepancy will be immediately obvious to branch staff once they have completed the transaction, for example, where the relevant member of staff realises that there was a mis-key. Otherwise, the

discrepancy may come to light when the branch staff consider the overall position at the branch account level when they complete the daily cash declaration (see paragraph 18 above), undertake a stock check (see paragraph 60 below) or seek to balance the branch account for that week or Trading Period (see paragraph 16 above). Further, the overall amount of the discrepancy shown on the system at the branch level may represent the "net" position resulting from more than one discrepancy (each of which could be a surplus or a shortfall). There is therefore no comprehensive system for the "notification" of a discrepancy as such.

42. The effect of a Postmaster or their staff receiving and accepting a Transaction Correction would be that Horizon will neutralise the discrepancy in question by showing a corresponding transaction to the opposite effect. To my knowledge, most of the Transaction Corrections that POL issues are in favour of the Postmaster. In other words, they have the effect of putting money back into the branch's Horizon account.
43. The Postmaster or their staff may challenge (i.e., dispute) a Transaction Correction. In doing so, they are essentially disputing POL's proposed resolution of the underlying discrepancy because they do not accept the cause of the discrepancy (and consequently, the proposed resolution) as identified by POL. In some cases, the branch may not be aware that there is a discrepancy at all. For example, even if POL has identified, at the transaction-level, an error or inconsistency that resulted in a shortfall/surplus, that discrepancy may not match up with the overall position on the branch account because, at the branch level, the discrepancy may have been counterbalanced by an unrelated surplus/shortfall arising out of an error in a separate transaction. This is not

uncommon, particularly where the discrepancies are of small amounts and the branch concerned is a large and/or busy post office with a high volume of transactions. If a Postmaster does not accept a Transaction Correction, he/she/it can carry out their own investigation or use the support offered by POL, either to dispute the Transaction Correction or find out more information about the transaction in question using the telephone number provided with each Transaction Correction. As at April 2021, the Transaction Corrections Dispute Team at POL would handle all Transaction Correction disputes. This team was established in March 2019, with its processes finalised in June 2019. These changes were therefore brought in before the 'Horizon Issues Judgment' was handed down in *Bates and Ors v Post Office Limited* [2019] EWHC 3408 (QB). I understand from Dawn Quick, Network Monitoring and Support Operations Manager, that, prior to this team being established, issues and disputes in relation to Transaction Corrections were dealt with by the Team Leader of the team within POL that was responsible for the product or service with which the transaction in question was concerned.

44. A summary of the Transaction Corrections issued in the period 30 March 2020 to 2 May 2021 are set out in the table at **WITN 0366_1/5**. This table sets out the Transaction Corrections by product type and frequency per day, per week and per period (across all branches).
45. For the period between 30 March 2020 and 2 May 2021, POL issued 165,953 Transaction Corrections. Of these, 90% (149,064) were due to errors at branch and 10% (16,889) were due to other issues that did not arise out of anything done at the branch-level. Of the 16,889 Transaction Corrections issued for other reasons, 93% of those (15,732) related to a major incident where

Camelot, a third-party client of POL, sent POL an incorrect file of data. No Transaction Acknowledgements could be issued to branches in those circumstances and so Transaction Corrections were required to correct branch accounts.

46. Further, Transaction Corrections generated by Cash Remittances sent from branch occur on average 209 times a day. The trigger for these Transaction Corrections is mainly due to there being a small difference in the amount returned to the cash centre when it is counted and checked, in comparison with the amount keyed-in to Horizon by the branch staff as having been returned. The other triggers within each product area can vary.

The concept of "matching"

47. "Matching" or reconciliation is carried out to ensure that any discrepancies identified between the files received by POL from third parties (for example, clients or suppliers), or cash and stock centres, and the data recorded by the branch in its Horizon IT account, are corrected accurately. By way of example, matching is undertaken in respect of the following products and processes:
- a. ATM withdrawals;
 - b. ATM retracts, i.e. where the cash is not dispensed correctly or if the customer does not collect the cash such that there is a discrepancy between the amount shown as dispensed and the amount that has in fact been dispensed by the ATM;
 - c. Automated payments made by swiping a card or scanning a barcode;
 - d. Bureau (i.e. foreign exchange) products;
 - e. Camelot (i.e. National Lottery) products;

- f. Cash remittances from the branch to POL's cash centre;
- g. 'Drop and Go' services for frequent customers who have an account with POL;
- h. Government services such as DVLA-related services;
- i. Postal Orders;
- j. Stock returns to POL's stock centres;
- k. Unpaid cheques; and
- l. Suspense account entries (which I explain below).

48. A "suspense account" is a temporary holding account in which discrepancies that are yet to be resolved are held within Horizon. For example, if the branch staff have made an error that they are aware of, the process of correcting it may involve moving the amount of the discrepancy caused by the error into the suspense account until POL issues a Transaction Correction. When the Transaction Correction has been issued, the Postmaster and/or their staff will need to redeem the amount of the discrepancy from the suspense account so that the effect of both these entries (i.e. the entry in the suspense account and the Transaction Correction) is to neutralise the discrepancy. Branch staff may occasionally overlook the need to manually redeem the entry in the suspense account against a Transaction Correction with the result that there appears to be a discrepancy in their account (i.e. if the Transaction Correction was issued in order to neutralise a shortfall then they would have a surplus and if it was issued to neutralise a surplus then they would have a seeming shortfall). Therefore matching is undertaken to check that suspense account entries have been redeemed, where necessary.

49. Since the CIJ, and as at April 2021, POL has introduced a control to ensure that the data files used for "matching" (as I explain above) are uploaded on a daily basis. This helps to ensure that POL is comparing like-for-like data and reduces the chance of reconciling branch data against incorrect information from other sources.
50. When dealing with products that are subject to "matching", there are a number of checks that Postmasters and/or their staff should undertake with customers. In particular, section 6 of the Postmaster Support Guide, under the sub-heading "Accurate transactions" (**WITN 0366_1/2**), provides the following advice:
- *Please check the amount on screen after you enter the customer's transaction and make sure the Horizon online basket is empty before serving the next customer*
 - *When completing chip and PIN transactions, please make sure the correct withdrawal or deposit icon is pressed*
 - *Remember to double-check the physical cash or stock that's being transferred to or from the customer before the transaction is completed*
 - *Please ensure any staff serving at the counter concentrate on the transaction in hand as this makes sure customer transactions are dealt with accurately and it also helps protect against sleight-of-hand incidents*
51. These points are also covered during classroom training for branch staff and reinforced by onsite trainers.

Accounting for in-branch ATMs

52. In relation to in-branch ATM machines, as at 28 April 2021, POL received a "Daily PO Ltd Usage" report from the Bank of Ireland ("**BOI**"), which provided the ATM services to branches. The ATM team within the BRT uploaded this report onto POL's Core Finance System ("**CFS**") on a daily basis. The Daily POL Usage report detailed all figures that, according to BOI, each branch had dispensed through its ATMs the previous day.
53. There are two relevant terms in relation to cash that leaves ATM machines:
- a. "Dispensed figure" is the final total value of cash dispensed by the ATM for each period from 16:30 on one day to 16:30 the next day.
 - b. "Withdrawal figure" is a rolling total of the cash (if any) that has been withdrawn from the ATM since the last "dispensed figure" crystallised at 16:30 (either earlier that day or the previous day). This is a useful figure for branch staff when doing their cash declaration because any delay in printing the 16.30 report and entering the cash declaration may result in the branch showing a variance (if further cash is withdrawn in the meantime).
54. Horizon does not communicate directly with the ATM machines. Instead, branch staff must print a report off the ATM that lists the amounts dispensed for each of the previous 4 days. Branch staff must then add the figures from that report manually onto Horizon. Horizon data (including the manually inputted amount dispensed by the ATM) is automatically populated in CFS when the branch declares its dispensed figure.

55. The ATM team within the BRT then manually matches the data from the Daily POL Usage report to the Horizon data. Where these two figures net to zero, they clear the amount from CFS. Where the two figures do not match, this leaves an "Open Item" and the ATM team investigates the discrepancy to seek to resolve it. Options for resolving such discrepancies can include contacting the branch and resolving the issue over the phone (i.e. the ATM team would seek to provide the branch with the correct figure for the daily ATM dispensing to declare onto Horizon) or issuing a Transaction Correction.
56. Potential difficulties with these processes could arise in the following circumstances:
- a. **Branches run the 16.30 report too early.** That would mean that the ATM has not yet cut the daily figure off such that that day's dispensed figures do not appear on the report. This could result in the branch declaring the previous day's figures in error and could lead to the branch having a discrepancy. As above, this would create an 'Open Item', which the ATM team would need to investigate.
 - b. **Branches do not run the 16.30 report at all,** and consequently do not declare the figure on Horizon at all. Again, this could leave the branch with a discrepancy and would therefore create an 'Open Item', which the ATM team would need to investigate.
 - c. The 16.30 report only itemises 4 days of 16.30 figures. Consequently, **if the branch is closed for 4 days** then, unless the branch prints the 16.30 figure on the morning they re-open, the figures may have a day missing when they come to print the 16.30 report at 16.30 that day. For

example, over an extended Bank Holiday weekend (where a branch may be closed Friday, Saturday, Sunday and Monday), if the branch last declares the 16.30 figure at 16:30 on a Thursday and then does not print the next report until 16:30 on the Tuesday, the branch will only see figures for Tuesday, Monday, Sunday and Saturday. Friday's figure will drop off the report.

57. Further, the cut-off for daily branch cash declarations is 7pm. If a branch does not submit its cash declarations by then, this could affect its planned orders for cash deliveries. For example, if a branch does not declare its 16.30 figure, the Cash Inventory Management team at POL will think that the money is still in branch and has not been dispensed. The Cash Inventory Management team may therefore not deliver any money to the branch, meaning that the branch could potentially run out of money and not be able to open.
58. In April 2021, across 1,746 branches that had a working ATM, 589 Transaction Corrections were issued in relation to ATMs. More specifically:
 - a. 257 Transaction Corrections were issued to 221 branches because the dispensed figures entered into Horizon did not match the amount of cash dispensed according to the BOI data. As these Transaction Corrections related to daily ATM figures over a 6-week period, assuming 7 days of ATM activity per week, they would have been based on 9,282 daily reconciliations between BOI and Horizon figures for these 221 branches.
 - b. 332 Transaction Corrections were issued to 332 branches due to the branch declaring a surplus on their weekly balance but not declaring it using the surplus button on Horizon. As these Transaction Corrections

also related to a weekly balance over a 6-week period, they would have been based on 1,992 reconciliations between BOI and Horizon figures for these 332 branches.

The information in relation to the number of ATMs in the POL Network has been provided to me by my colleague Luke McAteer, who is responsible for ATM Implementation Support within POL's ATM team.

59. For completeness, I note that POL is in the process of changing the provider of its ATM services from BOI to a different provider. This has brought some changes to the process of balancing the ATM figures, for example, the branch staff now only need to balance the ATM every seven days rather than daily.

Stock Checks

60. A stock check is simply the process of checking that the value and amount of all of the stock (for example, stamps, National Lottery products etc.) held in the branch corresponds with the figures stated on the branch's account on Horizon. A discrepancy can arise when the value or quantity of stock held in the branch does not correspond with the information recorded on Horizon. POL recommends to branch staff that they undertake a full stock check on a weekly basis, as set out in the 'Guide to Managing Stamps' at **WITN 0366_1/6**. This document is available to branch staff on the Branch Hub. The reason that this is encouraged is that the frequency of stock checks influences the frequency and extent of discrepancies. Weekly stock checks enable any such issues to be raised earlier and it then tends to be easier for the Postmaster and/or their staff to obtain support and to resolve the issue. The only mandatory

requirement in relation to the frequency of stock checks is that branch staff need to balance their accounts as shown on Horizon at the end of the Trading Period.

61. A Guide to Managing Stamps (**WITN 0366_1/6**) was launched in June 2021 to support Postmasters and/or their staff when finding errors in a stock check or when balancing stock. The guide covers how to rectify the following issues on Horizon:

- a. When stock has been entered onto Horizon incorrectly;
- b. When stock has been sold on Horizon incorrectly (for example, if the First Class stamp button was selected when a Second Class Stamp was sold); and
- c. How to accurately count and declare definitive stamp holdings (definitive stamps have the profile image of the Queen's head on them, and no other image, the biggest sellers of which are non-value indicator versions, such as First Class and Second Class Large).

62. There are two types of stock: (i) value stock; and (ii) non-value stock. Value stock items have a monetary value when sold and non-value stock items have no value (for example, National Lottery cheques, which are the cheques used by branch staff to pay out National Lottery winnings over £500). Most non-value stock items are not accounted for on Horizon, subject to a few exceptions. For example, the volume of National Lottery cheques and Postal Orders are recorded on Horizon because it is necessary from the inventory perspective to track this information.

63. Stock should only be returned to POL if POL so requests (unless the branch has large volumes of excess stock on hand). The process for returning stock is

set out in section 5 of the 'Guide to Managing Stamps' (**WITN 0366_1/6**) which explains the specific pouch that should be used and the entries that should be made onto Horizon.

Identifying and correcting mis-keys

64. A mis-key is a situation where someone working at the branch inadvertently enters the wrong data into Horizon by pressing the wrong key or keys. Mis-keys can be identified by:

- a. Branch staff raising that they have mis-keyed a transaction in branch;
- b. The customer raising an enquiry (perhaps to their bank); or
- c. The bank or POL's client raising an enquiry themselves.

65. A mis-key is corrected by the customer agreeing to have their account adjusted by the amount of the mis-key. A Transaction Correction is issued to the branch if the client (for example the bank or utility company) refunded the amount of the mis-key to POL. Since the time of the Teach-In Sessions, even in cases where it has not been possible to reach agreement, POL has tended to credit the amount of the discrepancy caused by the mis-key to the branch.

Dealing with Postmaster accounts that caused losses to POL in the annual accounts.

66. In the POL annual accounts, we fully provide for all Postmasters' account balances as follows:

- a. For former Postmasters or suspended Postmasters, all outstanding balances on their accounts are provisioned in full; and

- b. For current Postmasters, a provision is raised for all balances over 60 days, except for those Postmasters' accounts that are already on repayment plans.
67. All provisions are raised as a debit (cost) to POL's Profit and Loss account and credit (increase) to its balance sheet liability. These provisions are reviewed monthly in order to take account of any adjustments to the Postmasters' account balances as a result of payments or write-off.
68. Any write-off from Postmasters' account balances that have not previously been provisioned are treated as a debit (costs) to POL's Profit and Loss account and credit (reduction) to the relevant Postmasters' accounts, which is recorded on the balance sheet as an asset.

TEACH-IN SESSION 3: WHEN A POSTMASTER EXPERIENCES A SHORTFALL OR WOULD LIKE ASSISTANCE – 29 APRIL 2021

69. On 29 April 2021, POL provided a teach-in to the Inquiry on "when a Postmaster experiences a shortfall or would like assistance" ("**Teach-In 3**").
70. Teach-In 3 focused on the support available to a Postmaster and/or their staff when they experienced a shortfall or requested assistance from POL, including in particular:
- a. The working of the Branch Support Centre.
 - b. The processes in place within POL to handle the investigation of discrepancies and the information available to Postmasters and/or their staff in relation to ongoing investigations.

Shortfalls

71. A "shortfall" is a type of discrepancy where the value of the stock and/or cash physically held by the branch is less than the value shown as held according to the data on Horizon. A Postmaster and/or their staff could become aware of a shortfall in a number of circumstances, for example when undertaking a weekly stock check, balancing a stock unit, producing a full branch balance at the end of the Trading Period or reconciling daily cash figures by making a cash declaration.
72. Teach-In Session 3 focussed on the options open to the Postmaster and/or their staff to seek support with investigating and resolving such shortfalls, whilst Teach-In Session 4 focused on what happened once the shortfall had come to light and been "settled" i.e. moved off Horizon and onto the Postmaster's central account with POL for resolution.

POL's processes for providing support to Postmasters and/or their staff in relation to the investigation of shortfalls

73. The various helplines and technical escalation routes available to branch staff to seek support with the resolution of any discrepancies (or other issues) in relation to POL products and services and/or the operation of Horizon are set out in the operational document entitled 'BSC and ITDSD Support v0.2' at **WITN 0366_1/7**. I have summarised the main features of these below.
74. If a Postmaster and/or their staff experience a discrepancy or any other issue in relation to the running of the branch and wish to seek assistance from POL they would usually contact the BSC in the first instance. The BSC – Branch

Support Centre – provides assistance for many issues in branch but, in relation to investigating shortfalls, they can:

- a. Support branch staff to find the reason for their discrepancy;
- b. Investigate a discrepancy with, or on behalf of, the Postmaster.
- c. Explain the reason for those Transaction Corrections in respect of which the notification advises the branch staff to contact the BSC (rather than the BRT, which deals with the vast majority of Transaction Correction queries) for clarification; and/or
- d. Refer a disputed Transaction Correction to the Transaction Corrections Dispute team.

75. While providing support with the investigation or resolution of a discrepancy the BSC may also help the Postmaster and/or their staff to address related issues which may help prevent the recurrence of the discrepancy in future, such as by:

- a. Addressing training issues in branch;
- b. Involving the Area Manager for additional support;
- c. Signposting the branch staff to additional online training resources, available on Branch Hub or the Learning Management System (including access to a refresher training course specifically on investigating discrepancies); or
- d. Requesting support from the audit support team.

76. The "Tier 1" team would be the first point of contact within the BSC for branch staff. The Tier 1 adviser who answered the call would log the case onto the case management system used by the BSC, MS Dynamics 365 ("**Dynamics**"), undertake preliminary, high-level checks with the Postmaster and/or their staff to understand the issue, provide guidance and seek to resolve the issue.

77. As at 29 April 2021, if a request for assistance could not be resolved in the first instance (i.e. by the Tier 1 team) then it would be escalated to the relevant POL team depending on the nature of the request or query. If it related to a discrepancy, it could be escalated to one of various teams, including the "Tier 2" team or the Transaction Corrections Dispute team (if a Transaction Correction has been issued in respect of the discrepancy and is being disputed). Cases could also be escalated to Tier 2 for investigation by any other POL team, including the PAST or the BRT.
78. The Tier 2 team had more of an investigative role and would undertake further investigation and share their findings with the Postmaster or their representative. If the Postmaster or their representative was not satisfied with the result of the investigation the Tier 2 team would escalate the issue for review to the Tier-3 team. This used to be known as the 'Contract Investigation and Resolution Team' (the "**CIRT**") and would undertake a more detailed investigation than the Tier 2 team. For completeness, I note the CIRT is incorrectly described as the "Case Investigation Review Team" in the document at **WITN 0366_1/7**.
79. As at April 2021 there were no official timeframes for these steps and cases were progressed as quickly as teams were able to.
80. At the time of Teach-In 3, this three-tiered process had been in place for the following periods of time:
- a. Tier 1 (and the team that issues Transaction Corrections who have supported with calls about Transaction Corrections or Branch Discrepancies) has been in place since 1999.

- b. Tier 2 has supported with discrepancy investigations since April 2019, but it existed prior to then and for several years previously had acted as an escalation/support team for Tier 1.
 - c. The CIRT, later known as Tier 3, has existed since September 2019 but was formed from members of the Support Services Resolution Team, which had carried out investigations of a similar manner since April 2016.
81. Since December 2020, in addition to the tiered system for handling enquiries received from branch staff, the PAST have been proactively making support calls to branches when branch staff press the "Review and Dispute" option on Horizon, in order to discuss options for support or investigation, as required, and next steps.

Information on requests for assistance as at 29 April 2021

82. I understand that the Inquiry has requested an overview of Postmaster, Branch Assistant or Staff requests for assistance as at 29 April 2021, when Teach-In 3 was held. My colleague, Tracy Marshall, has collated information from the BSC which covers data for the period 30 March 2020 to 2 May 2021. In summary:
- a. The top ten reasons for calls from branches during the period were:
 - i. Stock Ordering (including emergency orders, stock code enquires and checking orders) totalling 31,430 calls;
 - ii. How to cancel transactions (MoneyGram Transactions) totalling 10,394 calls;
 - iii. Outward remittances (Counter Procedures, Resolving Errors) totalling 8,266 calls;
 - iv. Inward remittances (Counter Procedures, Resolving Errors, Incorrect Orders) totalling 7,842 calls;

- v. National Lottery totalling 7,579 calls;
- vi. Horizon Equipment (including Equipment Queries, Issues) totalling 6,921 calls;
- vii. Dangerous Goods (Royal Mail National/International Items) totalling 5,408 calls;
- viii. Monthly Trading Period (covering Balancing, including Discrepancies) totalling 5,355 calls;
- ix. Branch Staff (including Staff locked out of Horizon) totalling 5,159 calls; and
- x. Account Locked (Smart ID/Branch Hub accounts) totalling 5,088 calls.

b. The weekly averages for these calls were:

- i. BSC Stock Ordering: 551
- ii. BSC Cancel Transaction: 182
- iii. BSC Rems Outward: 145
- iv. BSC Rems Inward: 138
- v. BSC National Lottery: 133
- vi. BSC Horizon Equipment: 121
- vii. BSC Dangerous Goods: 95
- viii. BSC Monthly Trading Period: 94
- ix. BSC Branch Staff: 91
- x. BSC Account Locked: 89

c. The hours such calls could be made varied across the period 30 March 2020 to 2 May 2021 and are set out below, including specific times for Bank Holidays:

i. 30/03/2020-15/11/2020

08:30-18:00 Monday to Friday

08:30-16:00 Saturday

Closed Sunday

ii. 16/11/2020-29/08/2021

08:30-18:30 Monday to Friday (08:30-19:30 on Wednesdays)

08:30-16:00 Saturday

09:00-13:00 Sunday

iii. Bank Holidays

Easter Sunday – Closed

Other Bank Holiday Days – 09:00-17:00 (except Christmas and
New Year, see below)

iv. Christmas/New Year 2020

24/12/2020 – Lines Closed 16:30

26/12/2020 to 28/12/2020 – Lines Open 09:00-12:00

31/12/2020 – Lines Closed 16:30

01/01/2021 – Lines Open 09:00-12:00

- d. Calls were filtered through an initial menu, using the following four options: (1) Customer Waiting; (2) Stock; (3) Office Closure; and (4) Other Enquiries. These options did not change during this period and "Customer Waiting" and "Office Closures" were set as the highest priority calls. Whilst the BSC is usually the first line of contact, calls can then be escalated to other specialised teams, such as the BRT or PAST if required.

- e. The average handling time ("**AHT**") of all calls, in seconds, for each 4 or 5 week period, was:

<u>AHT by Period</u>	<u>AHT</u>
P1 20/21	501
P2 20/21	500
P3 20/21	503
P4 20/21	509
P5 20/21	520
P6 20/21	566
P7 20/21	606
P8 20/21	583
P9 20/21	521
P10 20/21	531
P11 20/21	540
P12 20/21	537
P1 21/22	581

- f. In terms of experience, as of 30 March 2020, there were 43 Tier 1 Advisors and approximately 50% of these had been with the business since before May 2016, some much longer. The remaining 50% had been performing the role for at least 6 months. Ten Tier 2 advisors supported the Tier 1 Advisors. Most of these had four or more years of service. Some advisors had a background of general office administration.

- g. The calls that branch staff had with these teams are recorded for quality assurance, using a system called "Puzzel". A random selection of calls are reviewed on a monthly basis against a standard assessment. Coaching is then provided to call-handlers as needed by dedicated coaches who are part of the BSC. Calls are available to download from the Puzzel Admin login for 14 months by "Time", "Phone Number", "Queue", and "Agent".
- h. During the period 30 March 2020 to 2 May 2021, 87% of calls were resolved on the day of contact, usually on the original call itself. The remainder of the calls were either resolved later by the original call handler or escalated to another team (such as Tier 2, BRT) for resolution. This is slightly lower than the previous financial year, which saw 89% of calls resolved the same day.

Improvements to the branch support services

- 83. In terms of ongoing improvements to the processes in place to offer support to Postmasters and/or their staff, I am aware that POL introduced a new operating model for the investigations process but this would not have been in place at the time of Teach-In 3.
- 84. The provision of assistance to Postmasters and/or their staff is being further developed by POL, for example:
 - a. As at 29 April 2021, POL was planning to rename the "settle centrally" button to "review/dispute" as mentioned in Q32. This subsequently happened on 13 May 2021 and a communication was sent out to Postmasters to explain the improvements expected to be introduced around support for discrepancies.

- b. As at April 2021, it was envisaged that Branch Hub could be used as the primary support tool for Postmasters and/or their staff to raise support tickets, complete stock ordering and access information relevant to the day-to-day running of their branch. Since then, and as set out above, content has been uploaded onto Branch Hub to support branch staff with resolving discrepancies, for example, the Postmaster Support Guide.

TEACH-IN SESSION 4: WHEN A POSTMASTER IS FORMALLY NOTIFIED OF A SHORTFALL – THE PROCESS

85. On 29 April 2021, POL provided a teach-in to the Inquiry on the process that is followed when a Postmaster or their representative is formally notified of a shortfall ("**Teach-In 4**").
86. The issues covered by Teach-In 4 included:
 - a. The process for the resolution of shortfalls;
 - b. The HORIce and Credence software systems;
 - c. The use of ARQ data in resolving disputes;
 - d. The role of Contract Managers/Advisors; and
 - e. The various POL support teams available to assist branch staff with the handling of discrepancies or shortfalls, and the interaction between them.
87. The following paragraphs set out the main points covered by POL during Teach-in 4 in relation to these issues.

The process for the resolution of shortfalls

88. If a shortfall was discovered in branch, the Postmaster and/or their staff could resolve the shortfall in the following four ways, as explained at paragraphs 34 and 35 above: "settling to cash", "settling to cheque", "settling to nominee" and "settling centrally".
89. If there were discrepancies or Transaction Corrections where the reason was unclear or unknown to the Postmaster and/or their staff, they could refer to Branch Support Guides which are at **WITN 0366_1/8** or the Postmaster Support Guide (**WITN 0366_1/2**). The Branch Support Guides focus on best practice, whereas the Postmaster Support Guide documents the processes in more detail. The Branch Support Guides on branch balancing, branch discrepancies and Transaction Corrections provide guidance on the next steps that can be taken. For further assistance the Postmaster and/or their staff could contact either:
- a. The BSC, who would help them identify the reason for the discrepancy or refer the case to the Tier 2 team for further investigation if required; or
 - b. The BRT, who would usually be best-placed to answer questions on any issues in relation to Transaction Corrections issued by POL. They would be able to provide supporting evidence for the Transaction Correction and guidance on how to prevent similar discrepancies from arising in the future.
90. As at the time of Teach-In 4 there was also an option on Horizon to 'Settle Centrally', as explained at paragraph 34 above. Once a shortfall was settled centrally, the Postmaster and/or their staff would be offered further support by

the PAST, who could also refer the case for further investigation to Tier 2 if the branch wanted help investigating the shortfall or the Transaction Correction Dispute team if the Postmaster wished to dispute the Transaction Correction.

91. If the discrepancy or Transaction Correction could not be explained or agreed on the initial contact made by the branch, either the Tier 2 team or the Transaction Corrections Disputes team would complete an investigation into the cause of the discrepancy and report back to the branch with their findings.
92. The checklist used by the Tier 1 team in order to diagnose the cause of discrepancies and provide support to branch staff is at **WITN 0366_1/9**. The checklist used by the Tier 2 team and the Case Investigation Report and Postmaster Information Pack used by the Tier 3 team are at **WITN 0366_1/10**.
93. As at the time of Teach-In 4, the only ways for the Postmaster to resolve the shortfall following the conclusion of POL's investigations were by balancing the shortfall by cash or cheque, settling to nominee (if the Postmaster was eligible to do so) or using the option to settle centrally, as I have explained above.
94. As at 29 April 2021, there were no specific timeframes or service level agreements in relation to how soon a Postmaster and/or their staff needed to raise the discrepancy.
95. If the Postmaster and/or their representative did not take any action on a branch discrepancy, the PAST would attempt to make contact with the relevant branch by telephone. They would then send a letter offering support and asking the Postmaster and/or their staff to contact them. If nothing was heard from them after 15 weeks, the case was sent to the Tier 2 team for investigation.

96. As at 29 April 2021, the information provided to Postmasters, following an investigation into the cause of discrepancies would have included the information of the nature set out in the 'Investigation Reports from Postmaster Accounting Dispute Resolution Policy' version 1.3 (**WITN 0366_1/10**). The Tier 2 team would have talked the Postmaster or their representative through their findings as recorded in the "Tier 2 checklist" found in section 1.1 of that policy on a phone call with the Postmaster or their representative. If the matter had progressed to further investigation by the Tier 3 team (or the CIRT as it was known at the time), they would have shared a summary of the Case Investigation Report found in section 1.3 of that policy, which gave an overview of the investigation, and would have also offered the supporting data from the Postmaster Information Pack set out in section 1.2 of that policy if necessary.

Improvements made to Horizon since the Horizon Issues Judgment

97. As at the date of Teach-In 4, a number of improvements had been effected to Horizon since the CIJ, including the following changes in particular:
- a. To remove the £150 limit for settling centrally with effect from 14th April 2021 which allowed Postmasters or their staff to settle centrally for any amount and ask for the discrepancy to be investigated.
 - b. To display prompts via Horizon to require branch staff to re-enter amounts for certain transactions, therefore reducing instances of mis-keys and subsequent Transaction Corrections.
 - c. To enable the voiding of items in the basket on Horizon, which allows branch staff to remove items from the basket in circumstances where the payment fails or items were created in error.

The HORice and Credence software systems

98. HORice and Credence are back-end data gathering systems that allow POL support teams such as the Network Monitoring team, the BRT, Tier 2 and Tier 3 to access information on what happened in a branch by looking at the flow of data in the system.
99. HORice provides a near real-time reporting capability and can provide visibility over multiple branches or the entire network.
100. Credence is a software system that can be used to run both pre-determined and user-defined reports from a database that receives data on branch characteristics from the Branch Database. This system is refreshed overnight and, unlike HORice, does not provide near-real-time information. Credence is used to run queries on individual branches or a group of branches as part of various POL processes, including network monitoring and investigation support.
101. The POL teams undertaking investigations would use the reports generated by these systems to unpick what happened in the branch when looking for the root cause of a discrepancy, for example. They would use the data to sense-check and support the investigation proactively as well as reactively.
102. Postmasters (or branch staff) do not have access to these software systems although they do have access on Horizon to the "Transaction Log" which is a record of all the transactional data from Horizon. The vast majority of the data in respect of that specific branch would be available there but in a different format.

The use of ARQ data in resolving disputes

103. POL uses Automatic Repeat Request ("**ARQ**") data for information that is not available on HORice (usually where the data/information is more than 12 months old). POL has used ARQ data where necessary to assist investigations regarding branch discrepancies since around 2000. For example, ARQ data can help locate or identify the root cause of discrepancies where the relevant events and transactions were recorded on Horizon more than 12 months ago. ARQ data can only be obtained by request from Fujitsu and would primarily be used by the Tier 2 or Tier 3 teams for more complex investigations.

Overview of the steps that POL took once a discrepancy was identified

104. As at April 2021, the following steps were taken when a discrepancy was reported to POL by a branch at the end of a Trading Period:
- a. The PAST would run a report to show all the discrepancies settled centrally.
 - b. They would work through the list, checking the CFS and Dynamics to see if a case had been raised by the Postmaster (for example, by making a call to the BSC and asking for support with the investigation) or if the discrepancy had been resolved (for example, if the branch had received a Transaction Correction).
 - c. If no contact had been made by the Postmaster and/or their staff and the discrepancy still existed, the PAST would make a phone call to the branch, using a script, to check that they were aware of the discrepancy, to understand how the Postmaster would like to proceed and to offer support. In this discussion they would seek to understand how the

discrepancy had come about, whether it was a recurring issue, whether there was a need for further training and next steps. They would also amend the Postmaster's account as necessary based on the outcome agreed with the Postmaster (or their representative), if any, and maintain a record of the discussion.

- d. If the discrepancy hadn't been blocked (i.e. put on hold for an investigation or to await a Transaction Correction) or been paid, a letter in the format found at **WITN 0366_1/11** would be sent to the Postmaster, encouraging them to contact POL for support or to pay, if they knew what the discrepancy was.
- e. If there was no change on the status of the account by the following week, a second letter in the format found at **WITN 0366_1/12** was sent.
- f. If there was no change on the status of the account by week 15, the case would be reviewed, and a recommendation made as to whether the case should be investigated.
- g. Selected cases were then investigated by the Tier 2 team.
- h. The Postmaster would be given the result of the investigation by the investigator in due course.

The process described above was newly introduced from December 2020, and, as at April 2021, very few cases had been progressed to investigation (i.e. step 'g' above).

- 105. Before the CIJ, the contact made with branches by the Agents Accounting Team (which became known as the 'Loss Recovery team' from July 2019 and

then the PAST from September 2020) was more focused on arranging payment. The process used to be as follows:

- a. A first letter and a follow-up letter were sent, stating that the Postmaster owed POL the amount of the discrepancy. Those letters focussed on the Postmaster making payment of the amount of the discrepancy.
- b. If there was no response to the letters, the team would attempt to contact the Postmaster and/or their staff via telephone. This was done primarily for those Postmasters with the largest balances owed. No scripts were used for these phone calls.
- c. Prior to 2017, if payment was not received and no dispute or investigation was raised by the Postmaster or their staff, then the Agents Accounting Team would automatically set up a deduction from remuneration for any amount up to, or equal to, £1,000 in order to 'reclaim' the amount of the shortfall. If this was done, a letter would be sent to the Postmaster explaining the amount and duration of the deductions. Any amounts above £1,000 would be referred to the Contract Advisor for that branch and a decision would be made on a case-by-case basis as to whether a deduction should be set up. With effect from 2017, the £1,000 threshold for setting up automatic deductions was removed. As a rule, any deduction set up by the Agents Accounting Team would amount to no more than 25% of the Postmaster's total remuneration.
- d. For larger amounts owed, civil recovery action would be considered in respect of former Postmaster's accounts or, occasionally, current

Postmasters in the case of cheques that had been referred to the drawer or were missing.

The Operational Review Committee

106. The Operational Review Committee first sat on 29 April 2021. It is a governance committee within POL that is chaired by the Head of Network Support & Resolution. Its objectives are:

- a. To review unresolved cases of shortfalls that were escalated to it due to age or complexity and consider next steps (which could be, for example, to write off the shortfall or initiate discussions with the relevant branch); and
- b. To review the performance metrics for the Tier 2 and Tier 3 teams.

107. The Operational Review Committee held meetings:

- a. Weekly (attended by the Head of Network Support & Resolution, the Tier 2 Resolution Team Manager, the Tier 3 Resolution Team Manager and the Postmaster Account Support Manager) in order to review unresolved Tier 2 cases that either require escalation to Tier 3 or other resolution (such as write off or audit) and decide which should be referred to the monthly committee meeting; and
- b. Monthly (attended by the same attendees as the weekly meetings, as well as the Service and Support Optimisation Director, Legal Counsel, Head of Network Monitoring & Reconciliation, Contract Investigations & Resolution Manager and Senior Manager Contact Centres), in order to seek resolution for complex cases or cases that require further authority.

The role of POL Contract Advisors

108. On the basis of information provided by my colleague David Southall, the Head of Contract Management and Deployment, my understanding of the role of Contract Advisors is as follows. The 'Contract Advisor' role (initially known as the 'Contract Manager' role) was introduced in approximately 2001 and that one Contract Advisor sat in each region of the POL network as it stood then.
109. In 2005, a Contracts Team was created. This was distinct from the regional areas and was headed up by three Agent Contract Deployment Managers. In 2006 this team was split to create a North and South team, with each area headed up by an Agent Contract Deployment Manager.
110. There are currently (as was also the case in April 2021) five Contract Advisors nationwide. They report to the Head of Contract Management & Deployment who in turn reports to the Franchise Partnering Director. The Franchise Partnering Director heads up the Franchise Partnering team, which comprises field-based teams that have daily interaction with branch staff, for example, the Area Managers and Network Provision Leads.
111. The primary responsibility of the Contract Advisor is to manage the contractual relationship between POL and the Postmasters across all types of contractual branch agreements in the Post Office network. They are required to understand all aspects of the Postmaster contract(s) and to provide guidance and support to both the Postmasters and the POL teams. Over the years, changes have been made to the work undertaken by a Contract Advisor. Most notably, they used to be responsible for undertaking application interviews (now known as 'suitability assessments') whereby they assessed and appointed incoming

Postmasters (including corporate Postmasters). They no longer undertake these assessments; Business Support Managers now undertake them instead. However, certain elements of the role (such as managing the contractual relationship with Postmasters, providing support to the wider business teams within POL on matters to do with Postmasters' contracts and dealing with breaches of contract by Postmasters) have been part of the role since it was first introduced.

112. Contract Advisors help Postmasters to deliver high performance standards including, where necessary, by deploying procedures to manage and resolve contractual breaches. These procedures are set out in POL's Contract Performance, Contract Suspension and Contract Termination policies which set out guidance and principles to ensure that POL is able to support the branch staff effectively. These are at **WITN 0366_1/13**, **WITN 0366_1/14** and **WITN 0366_1/15** respectively.

Contractual action on the basis of branch losses

113. On the basis of information provided by my colleague David Southall, the Head of Contract Management and Deployment, my understanding of this topic is as follows. The Postmaster contract(s) set out their obligations in relation to branch losses and responsibility for settling them. Prior to 2019, if a Postmaster did not settle a loss, or an issue was identified in the operation of the branch that may have led to the loss, steps may have been taken by the Contract Advisor in relation to POL's rights (and the Postmaster's obligations) under the Postmaster contract(s).

114. Such steps could have taken the form of a conversation between the Contract Advisor and the Postmaster or, more formally, the issuing of a 'written direction' or 'notice to remedy letter' under the terms of the relevant contract. The purpose of these letters was to identify a breach of contract to the Postmaster and set out the steps that need to be taken to resolve that breach. In addition to this sort of action, escalating branch losses or a branch loss discovered at audit may have led to the suspension of the relevant Postmaster's contract and ultimately to the termination of that contract.

115. Contracts Advisors have not been involved in recovering branch losses since 2019. This is now managed through the PAST.

The decision to terminate Postmasters' contracts

116. I understand from my colleague, David Southall, that responsibility for the decision on the termination of a Postmaster's contract sits with the Contract Team and is managed through the Contract Advisors and the Head of Contract Management & Deployment. The process followed in this regard is set out in the 'Postmaster Contract Termination Policy' (**WITN 0366_1/15**).

Statement of truth

I believe the content of this statement to be true.

Signed: 

Dated: 21/7/22

Witness Name: Alison Jane Clark

Statement No.: WITN 0366_1
Exhibits: WITN 0366_1/1 – WITN 0366_1/15
Dated: 21st July 2022

**THE POST OFFICE
HORIZON IT INQUIRY**

**WITNESS STATEMENT OF ALISON
JANE CLARK**

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Ref: 2066/9100/31048180

THE POST OFFICE HORIZON IT INQUIRY

Index to the exhibits to the First Witness Statement of Alison Jane Clark

No.	Exhibit Number	Document Description	Control Number	URN
1	WITN 0366_1/1	Postmaster Support Guide (as at 8 February 2022)	POL-0023204	POL00028027
2	WITN 0366_1/2	Postmaster Support Guide (as at April 2021)	POL-0023099	POL00027922
3	WITN 0366_1/3	Checklist for Audit and Support Advisors	POL-0023199	POL00028022
4	WITN 0366_1/4	Network Monitoring and Audit Support Policy v.1.2 (as at April 2021)	POL-0023149	POL00027972
5	WITN 0366_1/5	Transaction Corrections summary table from 30 March 2020 to 2 May 2021	POL-0023205	POL00028028
6	WITN 0366_1/6	Guide to Managing Stamps	POL-0023198	POL00028021
7	WITN 0366_1/7	BSC and ITDSD Support v0.2	POL-0023200	POL00028023
8	WITN 0366_1/8	Branch Support Guides and Cover Letter (as issued in October 2019)	POL-0023203	POL00028026

9	WITN 0366_1/9	Tier 1 Checklist – Pre May 2021	POL-0023194	POL00028017
10	WITN 0366_1/10	Investigation reports from Postmaster Accounting Dispute Resolution Policy	POL-0023193	POL00028016
11	WITN 0366_1/11	Current Postmaster Discrepancy letter 1	POL-0023197	POL00028020
12	WITN 0366_1/12	Current Postmaster Discrepancy letter 2	POL-0023196	POL00028019
13	WITN 0366_1/13	Contract Performance Policy	POL-0023195	POL00028018
14	WITN 0366_1/14	Contract Suspension Policy	POL-0023201	POL00028024
15	WITN 0366_1/15	Contract Termination Policy	POL-0023202	POL00028025