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HNG-X: Review of Assurance Sources

Board Update

As at 16/5/14, subject to co............. and our final report on 23rd May 2014
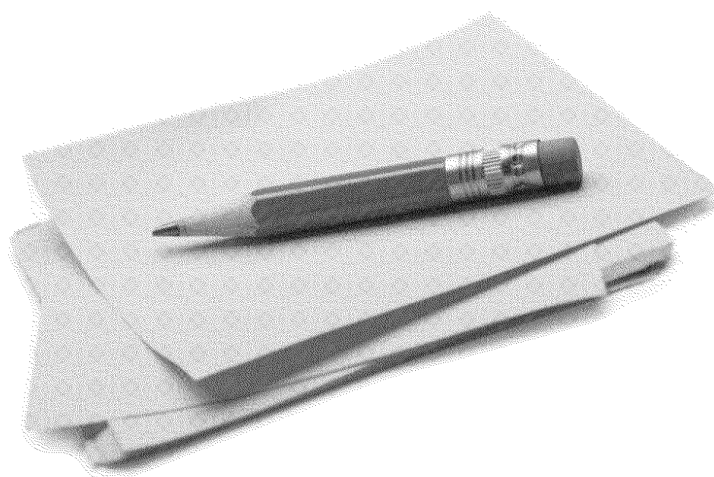
Board Update at 16/5/14

Our findings below are subject to the content of our final report which will be issued on Friday 23rd May. Our final report will contain further details on our approach, the matters we have identified and those actions we recommend management consider which could provide further, evidenced based assurance to the Board, if required.

Summary

From our desktop based review of the documentation noted below, supplemented by verbal assertions, nothing has come to our attention that suggests there are significant deficiencies in the identified design features of the Horizon processing environment that underpins sub-post master ownership and visibility of their Branch ledgers and the integrity of audit trails kept by the system.

Overall, a significant volume of documentation exists relating to the Horizon proc environment. The extent and nature of this documentation is comparable to that typically seen in simila tions, where IT activities are outsourced and formal risk orientated work is not mandated. In organis w mandated approaches to risk and control, we typically observe a greater level of end to end, ris rientated d ation and testing.

Day to day IT activities performed by POL's IT outsourcing partne gov d by a formalised risk and control framework, with supporting documentation and procedures, and ese have been independently tested against a recognised assurance standard.

In other areas necessary to the integrity of the process vironment, ffice is reliant on the fully effective implementation and operation of the design features ver ally or in documentation. In many of these areas, further assurance could therefore be ob by and updating documentation and performing more evidence based testing.

Key Findings

1. *Assurance over the system b*

The implementation of HNG- 2010 d on Royal Mail's "Harmony" project governance methodology. Project documentation e ows governing activities over the project occurred, such as Project Board minutes, risk l d tes ns. In addition, Wipro provided independent assurance that this Project's approach to perforn sting w fective. These Project Governance activities are comparable to what we would expect to see in no ulated, organisations.

Provision and examination o cumentation from other Projects has not identified sources of comfort for the Board which assure the baseline design and operation of system features that support processing integrity. We note that Fujitsu were planning independent work in this area in July 2012, but did not progress the review following POL's appointment of Second Sight.

2. *Assurance over the system provision*

The assurance relating to the current day activities of IT and Fujitsu's system provision adopts and delivers good practise. As noted above, a formal IT risk assessment has been performed and an IT control framework produced and independently assured, under a recognised assurance standard (ISAE 3402).

A number of third party systems are referenced by the Horizon processing environment, on a day to day operational basis. Documentation indicates that such data flows do not significantly impact the design features that underpin the integrity of the transactional system and the underlying Audit Store.

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The Audit Store's integrity is reported to be underpinned by the use of specialist technology, which fundamentally protects data within that environment from alteration, once it has been written. Documentation to support this has been requested. Design features are also documented which underpin the completeness and accuracy of data kept in the Audit Store, and that of subsequent reports generated from the Audit Store.

3. Assurance over system usage

Detailed documentation relating to the system has been produced, largely by technically competent professionals, familiar with the detailed design of Horizon. Based on the documents we have seen, this work is extensive and contains information relating to the key design features of the system. In order to provide greater comfort over the completeness of these design features, certain specific areas could be assessed and documented through a risk, rather than operational, lens.

Relating to wider business use activities, verbal confirmation has been received that processes are designed to ensure that sub-post master ownership and visibility of their Branch ledgers is maint░░░░░ Typical of organisations of similar regulatory regime and size to POL, these wider business use activities░░░░░relate to the integrity of processing are not always documented or maintained in an up-to-date form.

We noted that both the verbally described and the documented features do ░░░appe░░░░░e been independently validated or tested, so this is an area where further assurance could b░░░ered to the B░░░he framework of 'high priority' key design features that will be contained in our final ░░░co░░d be considered as a basis for such further assurance activity.

Context

Post Office Limited ("POL") is responding to allegatio░░░░░░izon"░ system used to record transactions in Post Office branches is defective and that the proces░ssoc░░░░it are inadequate (e.g. that it may be the source and/or cause of branch losses). POL is commit░░░░ring and demonstrating that the current Horizon system is robust and operates with integrit░░░in an a░░late control framework.

Since its implementation in branches░░L ha░mmissio░ed or has received an increasing number of pieces of work relating to Horizon to provide░░░ty. Deloitte has been appointed to consider whether this assurance work appropriately covers░s relating to the integrity of the processing environment and raise suggestions for potential im░░ents░surance provision.

Our work was perform░░the c░of activities we see in other, similar organisations, as well as guidance offered by recognise░practis░trol frameworks. Our work has been performed as a desktop review and thus has not tested the░░racy of any of the assertions made in documentation provided to us.

Further to the extension of ou░ork, we will issue a consolidated final deliverable on Friday 23rd May 2014.

Approach – Review of Sources of Assurance

Our work considered three main areas where we would expect assurance sources to be available for the Board, in order to fulfil your objective of being provided with comfort that the Horizon system is fit for purpose and operating with integrity:

1. **Assurance over the system "Baseline"** – this provides comfort that the original implementation project and other changes performed under formal projects were conducted in line with good project management practices, and that detailed testing was performed against agreed business requirements. Such activity verifies that the system was, at that point in time, fit for purpose and implemented as intended.

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2. **Assurance over the system "Provision"** – this provides comfort that the underlying IT activities, necessary to providing a system that can run and be used with integrity, are designed and operating effectively. Such activity verifies that key day to day IT management activities, for example, relating to security, IT operations and system changes are appropriately governed and controlled.

3. **Assurance over system "Usage"** – this provides comfort that key features in the system, designed to prevent or detect matters that would impact the integrity of processing, are in place and operating as intended. This area of assurance often requires detailed underlying work hence is typically conducted under a prioritised ("risk intelligent") approach.

This initial work identified a number of high priority areas where further review and assessment was required. POL therefore extended our work to perform a desktop review of those detailed features of Horizon which:

• ensure that the sub-post master has full ownership and visibility of all records in their Branch ledger; and

• ensure that these Branch ledger records are kept by the system with integr   d full audit trail.

Our extension included a technical validation of the Audit Store's tamper proof   isms and consideration of, based on supplied documentation, where key events in the past could have   e features.

We structured our work around the key questions shown in the diagram   'ow, focuss   levant high priority features of Horizon and assessing the extent to which they had been   umented and as   red.
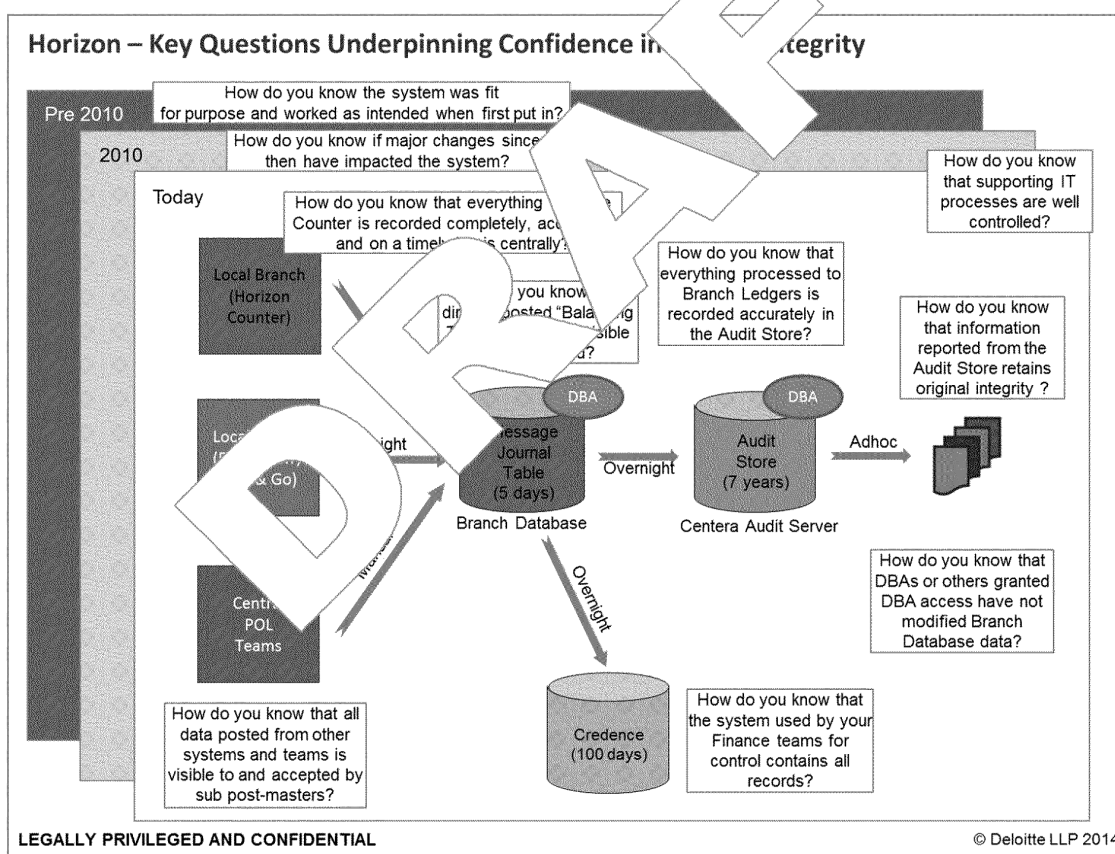
Further detailed information, including our final findings and recommendations for management will be issued in our report on Friday 23rd May 2014.

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DRAFT

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