

9 April 2015

## **Initial Complaint Review and Mediation Scheme**

### **BRIEFING REPORT - PART TWO**

**PREPARED BY**

**SECOND SIGHT**

**This Report is confidential and is not to be disclosed to any person other than a person involved in the processing of Applicants' claims through the Scheme.**

## Introduction

- 1.1. This Report has been prepared by Second Sight, which is the trading name of Second Sight Support Services Limited, the company appointed by Post Office to conduct an independent investigation into a number of matters raised by Subpostmasters, or former Subpostmasters.
- 1.2. When Second Sight was first appointed by Post Office at the request of Members of Parliament in July 2012, a number of undertakings were given by Post Office in order to satisfy MPs that Second Sight would be able to conduct a truly independent investigation into the matters of concern.
- 1.3. Those undertakings included the following:
  - Unrestricted access to documents held by Post Office (including documents subject to confidentiality and legal professional privilege); and
  - No limitation in the scope of work determined necessary by Second Sight.
- 1.4. Those undertakings were reflected in the *“Raising Concerns with Horizon”* document signed by Post Office on 17 December 2012 and sent to the Justice for Subpostmasters Alliance ('JFSA') and to Mediation Scheme Applicants. A key paragraph was:

*“In order to carry out the Inquiry, Second Sight will be entitled to request information related to a concern from Post Office Limited, and if Post Office Limited holds that information, Post Office Limited will provide it to Second Sight.”*

This statement was intended to accurately reflect the undertakings set out in 1.3. above.
- 1.5. Many Subpostmasters and Applicants to the Mediation Scheme will have relied on that paragraph, when reporting matters to Second Sight.
- 1.6. The investigative approach adopted by Second Sight, with the approval of Post Office, was to identify discrete issues raised by Subpostmasters or former Subpostmasters and conduct an in-depth investigation into those issues. These narrowly focussed investigations were referred to as 'Spot Reviews'.
- 1.7. Second Sight issued an Interim Report on 8 July 2013 incorporating the preliminary results of four Spot Reviews. Shortly afterwards Post Office announced the creation of a Mediation Scheme (the Scheme) to deal with the issues raised by a number of Subpostmasters and former Subpostmasters. At that stage the investigative work that led to the Interim Report being published was incomplete and it was intended that the further work, needed to support the Scheme, would enable the original Inquiry to be completed.
- 1.8. One of the principle findings at that stage was the need to look at the totality of the user experience of Horizon. Horizon is much more than just the software element and many of the

concerns reported to us clearly demonstrated problems with the interface between Horizon and other systems and the lack of effective investigative support from Post Office.

- 1.9. The Scheme received 150 applications before the deadline for applications expired on 18 November 2013 and 136 cases are now being processed in the Scheme. Second Sight issued a *Briefing Report - Part One* on 25 July 2014, which dealt with:
  - a) General information about Post Office, its branches and the role of Subpostmasters;
  - b) A description of the training and support functions as well as the Post Office audit and investigation processes;
  - c) An overview of the Horizon system and associated equipment;
  - d) An introduction to the application of double entry accounting in Horizon;
  - e) A description of significant branch operating and reporting procedures and the associated processing of transactions;
  - f) An outline of the treatment of losses and surpluses; and
  - g) An analysis of typical errors.
- 1.10. As a result of analysing the 150 applications to the Scheme, we identified 19 commonly mentioned issues (often described as '*Thematic Issues*') that were raised by multiple Applicants. In the interests of efficiency we agreed with Post Office that, rather than deal with these commonly mentioned issues within individual Case Review Reports ('CRRs'), we would prepare a *Briefing Report - Part Two*, that would deal with all of them in a single document that would be sent to all Applicants.
- 1.11. Although the 19 commonly mentioned issues were identified as a result of analysing just 150 applications to the Scheme, the nature of the underlying issues may be applicable to a much wider group of Subpostmasters.
- 1.12. We issued a first version of this *Briefing Report - Part Two* on 21 August 2014. That document recognised that a number of issues were still under investigation. Post Office issued a response to the first version of that Report on 22 September 2014.
- 1.13. Investigations have continued since the release of the first version of our *Briefing Report - Part Two* and this updated Report presents further information relating to the commonly mentioned issues dealt with in the 21 August document and takes account of further information supplied by Post Office.
- 1.14. At the time of finalising this updated Report (9 April 2015) approximately 20 out of 136 cases are still being investigated by us. It is therefore possible that new information will come to

light that is relevant to the matters dealt with in this Report. If this happens, we will discuss with Post Office how best to communicate such further relevant information - possibly in the form of a supplemental report.

## **2. Limitation of Scope in Work Performed**

- 2.1. We have experienced significant difficulty in obtaining access to a number of documents we believe are necessary for the purposes of our investigation, notwithstanding Post Office's commitment to make requested documents available to us. The documents requested from Post Office fall into three main categories:
- a) the complete legal files relating to investigations or criminal prosecutions commenced by Post Office that relate to Applicants;
  - b) the complete email records relating to a small number of Post Office employees working at the Bracknell office of Fujitsu in 2008; and
  - c) detailed transactional records relating to items held in Post Office's Suspense Account(s) and to disputed transactions in a number of third party client accounts held by Post Office.

- 2.2. The following paragraphs describe these matters in more detail.

### **Access to the complete legal files**

- 2.3. A number of Applicants have raised issues concerning the investigative and prosecution processes they experienced.
- 2.4. Typical concerns mentioned include:
- a) An audit visit that was in reality only a cash and stock count;
  - b) An investigation process that had difficulty in considering the possibility that Horizon itself might have caused any losses and often failed to establish the root cause of the unexplained losses;
  - c) Criminal charges that were dropped just before trial despite the Applicant having been suspended without pay for a long period (two years or more in some cases);
  - d) A charge of theft being brought when there appears to have been only limited evidence to support that charge and where that evidence was not tested by the Court, as the charge was dropped just before trial; and
  - e) A prosecution process that appeared to be focussed more on debt recovery than in the interests of justice.



- 2.5. Our review of applications, where criminal charges were brought, provides some limited support for these concerns. However the issues raised by individual Applicants can only be investigated by a review of the complete legal and investigative files held by Post Office. So far, with the exception of only a few cases, Post Office has not provided us with access to the complete legal files that we have requested. It has, however, reported that:

*"Having now completed its reinvestigation of each of the cases, Post Office has found no reason to conclude that any original prosecution was unsafe".*

- 2.6. We however, consider that a complete and independent review of these criminal cases is the only proper way to identify whether there are instances of possible misconduct by prosecutors acting on behalf of Post Office and whether or not miscarriages of justice may have occurred.
- 2.7. Post Office has informed us that reviewing the individual *"investigative and prosecution processes"* that Applicants have experienced does not fall within the terms of our engagement. We find this position surprising since it is the consequences of those processes that have given rise to many of the issues that Applicants wish to mediate. Also, the position adopted by Post Office is contrary to the position taken by the Working Group which was set up to administer the Scheme, of which Post Office was a member.
- 2.8. In the light of this apparent conflict of views between the Post Office and the independent body set up to administer the Scheme ('the Working Group') chaired by Sir Anthony Hooper, a retired Court of Appeal Judge, we would normally have asked the Working Group to provide guidance on this matter. Unfortunately, it has not been possible to do this, as on 10 March 2015 Post Office announced that the Working Group had been wound up with immediate effect. This was the day before we were due to circulate a draft of this Report to all members of the Working Group. It was also the day that Post Office notified us that our contract to conduct an independent investigation into the matters raised by Applicants was being terminated. Consequently, Post Office instructed us to issue a final version of this Report no later than 10 April, irrespective of whether or not our independent investigation was complete.

#### **Access to the emails of Post Office employees working at Bracknell**

- 2.9. A significant number of Applicants have stated that they believe that transactions and balances on Horizon were altered without their consent. It has been reported to us that some changes appear to have been made outside of normal working hours and that some of those changes suggest that some form of unauthorised remote access to transaction data may have occurred.
- 2.10. We have seen a witness statement from an Applicant who claims to have seen evidence of this type of activity in August 2008, occurring in the basement of the Fujitsu office in Bracknell. Post Office has stated that it is not possible for the type of activity described to have occurred. However, we believe that, despite Post Office's reassurances and statements from its employees and those of Fujitsu, the most compelling evidence on this point will be in contemporaneous emails from the relevant period.

- 2.11. We first requested access to the relevant emails in 2013 and we were provided with some emails from 2009. We have very recently been provided with a small number of emails from August 2008, but this sample was too small to draw any meaningful conclusions about what was really going on in the basement of the Fujitsu office in Bracknell.
- 2.12. We deal with this matter in more detail in Section 14 of this Report. Our current, evidence based opinion, is that Fujitsu / Post Office did have, and may still have, the ability to directly alter branch records without the knowledge of the relevant Subpostmaster.
- 2.13. We recognise that this conclusion is contrary to Post Office's position on this matter and it is regrettable that we have not been provided with the further evidence we have requested in order to reach a properly researched conclusion on this important issue.

#### **Transaction data relating to third party client accounts**

- 2.14. Post Office operates a number of client accounts with business partners such as Royal Mail, Bank of Ireland, HMRC, DWP, DVLA and many others. Transactions from branches relating to these business partners are allocated to the appropriate client account before being reconciled with information provided directly by the business partner. Normally these transactions are matched without difficulty but occasionally errors occur or disputes arise where the transaction details shown on Horizon and the transaction details reported by the third party client differ.
- 2.15. In these circumstances an adjustment referred to as a Transaction Correction (TC) may be generated in order to correct an error previously made in a branch. Post Office has advised us that its policy is to write off unexplained debit balances on third party client accounts, but that any unexplained credit balance will be left open in case the matter is subsequently resolved. Eventually these long outstanding credit balances will be transferred to Post Office's General Suspense Account and may be taken to its Profit & Loss Account (P&L Account) if they have remained unresolved for more than three years.
- 2.16. A number of Applicants have reported that they have suffered unexplained losses or have received TCs relating to transactions with Post Office's third party clients. We informed Post Office, on 18 June 2014, of our wish to investigate the possibility that some of those unexplained losses could be represented by transactions subsequently taken to the credit of its P&L Account.
- 2.17. We have been advised that, in each of the financial years 2012, 2013 and 2014, amounts in excess of £100,000 have been taken to the credit of Post Office's P&L Account and we have asked for a detailed breakdown of those amounts, together with corresponding transactions from the individual third party client accounts. This is a complex issue and, whilst Post Office has agreed to provide us with this information where possible, this matter has not been resolved at the date of this Report.
- 2.18. In addition to the credits being taken to Post Office's General Suspense Account we have been informed very recently that at each year end substantial unreconciled balances existed on

many of the individual suspense accounts. These unreconciled balances for the 2014 financial year were approximately £96 million in respect of Bank of Ireland ATMs and approximately £66 million in respect of Santander. These unmatched balances represent transactions from individual branches that occurred in the preceding six months.

- 2.19. We have not been able to investigate these items but we remain concerned that these unreconciled balances may include transactions that ultimately should be credited back to individual branch accounts.

### **3. Our updated Briefing Report - Part Two**

- 3.1. The limitation in scope reported above has, in our opinion, significantly restricted our ability to complete our investigation into some of the issues commonly raised by Applicants to the Scheme. It is particularly regrettable that two of the issues raised: access to the complete legal files and to the Bracknell emails, appear to represent a policy decision, taken at a senior level within Post Office, which is contrary to the undertakings previously provided to Second Sight, to Applicants, to the JFSA and to MPs.

- 3.2. We are also aware that Post Office's current view is that:

*"Post Office does not accept that an analysis of the evidence in the Applicant's criminal case, whether served during the course of that case or not, is either within the scope of the mediation scheme or something which is within Second Sight's remit."*

- 3.3. We disagree with this view and previously we would have asked the Mediation Working Group to advise us on this matter. However, for the reasons described in paragraph 2.8. it has not been possible for us to do this.

- 3.4. We are also aware that Post Office considers our comments on a number of other issues as falling outside the scope of the Working Group and beyond our remit. These issues include:

- a) the Contract between Post Office and its Subpostmasters;
- b) the transfer of risk between Post Office and Subpostmasters; and
- c) the error repellency of Post Office's business systems.

- 3.5. These three issues are all, in our view, connected as described below.

#### **The Contract between Post Office and its Subpostmasters ('the Contract')**

- 3.6. Our detailed comments on the Contract are set out in Section 6 of this Report. The Contract makes it clear that Subpostmasters are responsible for losses that occur at their branch. What is not clear, is what support they are entitled to receive from Post Office.

- 3.7. As set out in paragraph 6.8. i) there is no automatic entitlement to investigative support when problems arise. There is also no automatic entitlement to be provided with data held by Post Office with the exception of the data routinely made available to the branch by Horizon.
- 3.8. The Contract places Subpostmasters in a difficult position in these circumstances. Post Office generally insists on losses being made good, but the Subpostmaster is not necessarily entitled to receive all of the information and explanations necessary to establish the cause of the loss. We regard this as unfair.

#### **The transfer of risk between Post Office and Subpostmasters**

- 3.9. The Contract transfers most of the risk of doing business to Subpostmasters. Our investigations have shown that this is not a static situation and, over time, Post Office has introduced a number of new products, and revised business processes, that may have transferred further risk to Subpostmasters.
- 3.10. Many of these changes seem to have been introduced without adequate consultation. We regard this as regrettable. Examples of business process changes that have transferred additional risk to Subpostmasters include:
- a) the phasing out of ATMs where a third-party, not the Subpostmaster, was responsible for servicing and accounting for the ATM;
  - b) the removal of paper paying-in slips that provided a detailed audit trail identifying individual transactions;
  - c) the introduction of new products and services, such as Lottery products and Foreign Currency (Bureaux de Change) services, subject to the overriding consideration of whether it is reasonable to do so;
  - d) the removal of the facility to hold shortfalls in Branch Suspense Accounts beyond the end of a monthly Trading Period (partly compensated for by the introduction of the 'Settle Centrally and Dispute' function); and
  - e) the change from mandatory weekly to monthly balancing.

#### **The error repency of Post Office's business systems**

- 3.11. A consequence of the progressive transfer of risk from Post Office to Subpostmasters is that, in our opinion, there is little incentive for Post Office to improve the error repency of its business systems. We are aware that Post Office has implemented some process changes, such as 'Ping', in relation to Lottery Scratchcards, that have improved the error repency, but we believe that much more could, and should, have been done in this regard.
- 3.12. We regard the lack of error repency in some aspects of Post Office's business systems as regrettable. Our investigations have shown that the majority of branch losses were caused by

*"errors made at the counter"*. Many of these errors might have been avoided, or mitigated, had more robust, error repellent, systems been introduced.

3.13. Examples of inadequacies in Horizon's error repellency include:

- a) Hardware and technology that is old and suffers from avoidable rates of failure;
- b) Telecommunication equipment that is prone to failure or to poor signal reception in some rural locations;
- c) Limited usability testing prior to deployment of new facilities on Horizon;
- d) An icon based touch screen that does not auto-calibrate;
- e) Software that does not detect and prevent password sharing or multiple logons by the same user at a different branch;
- f) The lack of secure, token-based, user identification that would uniquely identify the actual user;
- g) Software that does not prevent or detect suspicious out of hours transactions; and
- h) Software that does not require additional process steps such as two person approval or an additional approval measure for high value or high risk transactions.

3.14. These examples should be regarded as illustrative rather than exhaustive.

3.15. One of the difficulties that both Post Office and we have faced, in dealing with the concerns that have been raised by Applicants, is that some of the alleged problems occurred more than ten years ago.

3.16. A consequence of this is that many contemporaneous documents no longer exist and memories have faded. We have repeatedly found that Post Office, in dealing with such matters, describes how the (new) system *currently* handles things. Its answers have often been expressed in terms of what was *meant to happen*, rather than what actually happened. Other answers have been expressed *in the present tense*, asserting what now happens, or what now cannot happen.

3.17. While such responses may seem to be helpful in dealing with those many instances where evidence is no longer available, they have, in our view, little or no evidential value. Knowing what Post Office's *current* policies or procedures dictate, or how the *current* system deals with a matter that has been raised, cannot be expected to inform our analysis as to how a situation really was dealt with *at the time that it happened*.



3.18. Notwithstanding these limitations and issues, we continued to investigate the matters covered in the previous version of this Report, and have produced this updated version.

#### 4. The structure and content of this Report

4.1. The Report structure follows a modular approach, with each commonly raised issue, as broadly defined by Second Sight, forming a separate section within the Report. There are some topics on which our investigative work is incomplete. Further questions have been posed by Second Sight to Post Office in respect of those topics and, where our questions have been adequately answered, and where further evidence has been made available to us, the wording used in the previously issued version of this Report has been updated to reflect that. A number of those questions remain unresolved however, and these are clearly identifiable in this Report.

4.2. A copy of the reply by Post Office (without Attachments) to the detailed questions submitted by us on 9 December 2014 is attached at *Appendix 1*.

4.3. The number of occurrences of each commonly raised issue, from the total population of 150 applications to the Scheme, is indicated throughout this Report using the following groupings and descriptions:

**Few** Fewer than 15 instances  
**Many** Between 15 and 70 instances  
**Most** More than 70 instances

4.4. In this context, the most commonly reported issue (complaints about Training and Support) has been raised by over 130 Applicants, while the least reported issues (concerns about Pensions and Allowances transactions and Motor Vehicle Licences) were each raised by fewer than 15 Applicants.

4.5. In order to put our comments in context, the issues being considered are based on concerns raised by 150 Scheme Applicants from a total population of approximately 8,000 serving Subpostmasters. In its response to the previously issued version of this Report, Post Office stated:

*"Post Office is confident that there are no systemic problems with branch accounting on Horizon and all existing evidence overwhelmingly supports this position".*

4.6. Later, in a letter dated 14 January 2015 that it sent to those MPs who had voiced concerns during the 17 December 2014 Adjournment Debate, Post Office referred to:

*"500,000 people working in the Post Office network"*

and said that:

*"78,000 people use Horizon up and down the country, performing six million transactions, and providing vital services in our communities".*

It continued:

*"against that backdrop, the 150 complaints we are addressing through the Scheme, alleging that Horizon suffers from system-wide flaws, represents a tiny fraction of the total number of people who have used, or are using, the system effectively (0.03% and 0.19% respectively)".*

- 4.7. Whilst we recognise that the number of complaints about which we have been informed indeed represents a tiny fraction of the total user population, we must point out that the impact, on most of the Applicants, of their problems with Horizon, and of their experience with Post Office generally, has had significant personal impact.
- 4.8. The identification of a commonly mentioned issue first occurred at the time that an Application Form, or its related Case Questionnaire Response (CQR), was initially considered by us. As the Scheme process continued the underlying concerns were further explored and conclusions were set out in the Post Office Investigation Report (POIR) and then in our Case Review Report (CRR). This Report describes these issues in more detail.
- 4.9. In considering the CQRs submitted to us, Post Office's seven year Data Retention Policy has, in some cases, limited the availability of evidential data. This Policy applies to both Horizon transactional data (held by Fujitsu) and also to other business records such as emails, letters, memos, interview recordings, transcripts and Audit and Investigation Reports.
- 4.10. Until recently, Post Office did not appear to operate a 'litigation hold' process whereby documents that may later be needed to support a complaint or investigation are preserved – irrespective of the seven year retention period.

## **5. Definition of 'Horizon' and its impact on the Scope of our work**

- 5.1. The definition of Horizon for the purposes of our work was considered in our Interim Report of July 2013 as follows:

*".... the name Horizon relates to the entire application. This encompasses the software, both bespoke and software packages, the computer hardware and communications equipment installed in branch and the central data centres. It includes the software used to control and monitor the systems. In addition..... testing and training systems are also referred to as Horizon".*

Whilst we have adopted this definition of Horizon, as it had been agreed with Post Office, it has been necessary, for the purpose of our investigation, to extend it so as to properly include the totality of each Applicant's experience of using Horizon. We have therefore found it necessary to also consider issues such as the Audit and Investigative processes and the Contract between Post Office and its Subpostmasters as well as the behaviour of Post Office towards the Applicants to the Scheme when problems arose.



## 6. The Contract between Post Office and its Subpostmasters

6.1. The Contract between Post Office and its Subpostmasters lies at the heart of many of the issues that Subpostmasters wish to resolve by way of mediation. This Section deals with two separate issues. First, the potential impact on Subpostmasters of some of the terms and conditions set out in the Contract and, secondly, issues relating to the notification to Subpostmasters of the terms of the Contract.

6.2. When invited to comment on a previous version of this Report Post Office stated that

*"Matters such as the Subpostmaster contract and other legal matters are not within the scope of the Scheme and are outside Second Sight's professional expertise".*

6.3. For the avoidance of doubt, we are commenting on the commercial aspects of the Subpostmaster Contract, a matter which we are confident falls within our professional expertise. We also believe that this issue legitimately falls within the scope of the Scheme.

6.4. The following extracts are taken from the 'Standard Contract' (dated September 1994) between Post Office and Subpostmasters. This is a 114-page document, that now incorporates several post-1994 amendments. A copy of the entire document is available on request. The Contract should be considered in conjunction with other documents such as manuals, booklets and operational instructions issued by Post Office from time to time.

6.5. The Standard Contract is described by Post Office as an arms-length, commercial transaction in the nature of an agency contract. Post Office has also stated that, in its experience,

*"the terms of the Contract are broadly similar to those used in franchising arrangements across the UK".*

6.6. We disagree with this view for the reasons set out below.

6.7. The contract allocates several financial and other risks to Subpostmasters who may not have understood or appreciated those risks, particularly if they failed to seek independent legal advice before taking up their posts. Our comments on the clauses most referred to by Applicants, and therefore most relevant to our review, as set out below, are made solely from a business perspective.

6.8. The Standard Contract spells out the rights and responsibilities of both Post Office and Subpostmasters. The clauses most frequently referred to by Applicants are as follows:

- a) **Section 17:** (in the November 2002 amendment) lists the *Key Products and Services* (also referred to as the core products and services).
- b) **Section 15:** (in the November 2002 amendment) refers to responsibility for the training of the Subpostmaster and, in turn, of the staff employed in a branch. Under this Section:

*“Post Office undertakes to provide the Subpostmaster with relevant training materials and processes to carry out the required training of his Assistants on the Post Office Products and Services... and the Sub-Postmaster accepts the responsibility to ensure the proper deployment within his Post Office branch of any materials and processes provided by Post Office Ltd and to ensure that his Assistants receive all the training which is necessary in order to be able to properly provide the Post Office Products and Services and to perform any other tasks required in connection with the operation of the Post Office branch.”*

Also

*“Post Office Ltd may request from time to time that where it has obligations as described above the Subpostmaster should conduct specific training (whether through written/distance learning that may require confirmation of completion or via presentations) in relation to certain Post Office Services (such as, but not limited to, money laundering). Failure by the Subpostmaster to arrange for such training to be properly applied will be deemed to be a breach of this Contract by him.”*

- c) **Section 1, paragraph 10:** requires three months notice of contract termination from the Subpostmaster to Post Office and allows Post Office to:

*“Terminate a Subpostmaster’s contract at any time in case of Breach of Condition by the Subpostmaster, or non-performance of his obligation or non-provision of Post Office Services, but otherwise may be determined by Post Office on not less than three months notice.”*

- d) **Section 12:** has a number of paragraphs, as set out below, addressing responsibility for losses and shortages. These paragraphs are at the heart of nearly all of the cases being considered in the Scheme.

- e) **Section 12, paragraph 12:**

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

- f) **Section 12, paragraph 13:**

*“The financial responsibility of the Subpostmaster does not cease when he relinquishes his appointment and he will be required to make good any losses incurred during his term of office which may subsequently come to light.”*

- g) **Section 12, paragraph 14:**

*“Surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately.”*

h) **Section 12, paragraph 17:**

*"Subpostmasters may exceptionally not be required to make good the full amount of certain losses at his office. If he feels entitled to relief in making good a loss he should apply to the Retail Network Manager."*

i) **Section 19, paragraph 12:** deals with enquiries by officers of the Post Office Investigation Division and states that:

*"The main job of the Investigation Division is to investigate, or help the Police to investigate, criminal offences against the Post Office, British Telecommunications and the Department of National Savings. The Investigation Division does NOT enquire into matters where crime is not suspected."*

j) **Section 19, paragraph 19:** allows:

*"persons interviewed by Post Office's Investigators to have a friend present during the interview but that person may only attend and listen to questions and answers. He must not interrupt in any way, either by word or signal."*

6.9. Having considered the Standard Contract in some detail from a business perspective, we are of the opinion that it can, in some circumstances, operate to the detriment of the Subpostmaster, who may not have reviewed or fully understood the terms before deciding to enter into the Contract. We have not seen any evidence that Post Office either advises or requires Subpostmasters to seek independent legal advice before taking up their posts.

6.10. Although Post Office has likened the Standard Contract to a franchise agreement, we note that the British Franchise Association recommends that a franchisee should always seek independent legal advice before entering into a franchise agreement and we are surprised that Post Office does not make a similar recommendation.

6.11. The Standard Contract places a number of financial and other risks with Subpostmasters who may not have properly understood or appreciated those risks, particularly if they failed to seek independent legal advice. Consequently, there is a risk that appropriate risk mitigation measures may not have been implemented by the Subpostmaster.

6.12. We have been told by many Applicants that they were not given a copy of the 114 page Standard Contract until long after they had committed to purchase their branch, or long after they had started work as a Subpostmaster, or even at all.

6.13. Post Office denies this, stating:

*"it is also Post Office's standard operating procedure to ensure that the Subpostmasters have a copy of the Contract no later than the day that they commence their position".*

6.14. We have found that this "standard operating procedure" was not always followed. Instead, it appears to have been common practice for a new Subpostmaster to sign a one-page

*'Acknowledgement of Appointment Letter'* without necessarily having been provided with a copy of the Contract itself.

- 6.15. In signing that one-page letter, the Subpostmaster acknowledged receipt and acceptance of the terms and conditions of that Standard Contract, without necessarily having ever received a copy of it, and without having had the opportunity to understand and respond to those terms and conditions.
- 6.16. It is, in our view, worth noting that retaining evidence of the provision of the Standard Contract to the Subpostmaster seems never to have been part of Post Office's Standard Operating Procedures.

## **7. Automated Teller Machines (ATMs)**

- 7.1. Our Briefing Report - Part One provides, in paragraphs 5.23 to 5.29, background information on the installation and operation of Automated Teller Machines (ATMs).
- 7.2. Problems with ATMs, largely comprising unexplained shortages that were charged back to Subpostmasters by Post Office, have been reported in more than 20% of applications to the Scheme and all of them relate to externally-located Bank of Ireland (BoI) ATMs.
- 7.3. Thirteen of those ATM-related shortages exceeded £20,000, six exceeded £60,000 and one exceeded £80,000. In other cases, large surpluses occurred, which caused concern to some Applicants.
- 7.4. The normal cash dispensing process on BoI ATMs involves electronic interaction between the Branch's ATM; Wincor Nixdorf (the service and maintenance provider); the LiNK platform and the customer's bank. The ATM cash balancing/reconciliation process involves electronic and also manual interaction between the Branch's ATM; the Branch's Horizon system; Post Office's Financial Service Centre (the 'FSC') and BoI. Branches need to account for the cash that they load into the ATM; for the cash that is dispensed to customers; and for exceptions such as banknotes that the ATM cannot deal with and notes that are 'retracted' (when customers fail to take the offered notes).
- 7.5. Whilst the loading of notes is a relatively straightforward task, the accounting on Horizon for branch ATMs seems not always to have been properly understood or correctly carried out and we address the most likely reasons for this below.
- 7.6. The principal problem, reported by many of the Applicants who have raised concerns about their branch's ATM, seems to relate to the manual extraction and use of the '*cash dispensed*' figures from the '*Bank Totals*' receipt that Subpostmasters are required to obtain each day from their ATM, and the daily input of '*cash declarations*' into Horizon. This has been referred to by some Applicants as having to deal with an '*air gap*' between their branch's ATM and the Horizon system.

- 7.7. This is a procedure that seems to us to be fundamentally flawed because what the Subpostmaster is doing here is inputting data into his branch's Horizon system that the ATM itself has generated and already communicated, through the LiNK system, to Bank of Ireland and that Bank of Ireland will the following day onward communicate to Post Office.
- 7.8. Those figures, that are input by the branch staff into Horizon, are then subsequently 'reconciled' by Post Office with the numbers *that came from the ATM itself*. Whilst this process will detect errors made by branch staff in transcribing the ATM's cash dispensed figures into Horizon, it is driven by the figures that the ATM itself has generated. It follows that, if those ATM-generated cash dispensed numbers have, for some reason, been under-stated, and more cash has been dispensed than the ATM reports, then the Subpostmaster will be held accountable for the resultant shortfall. In our view, although Post Office strongly disagrees with us, this introduces a vulnerability to error and fraud that simply did not exist before. We return to this matter in paragraphs 7.28 to 7.38 of this Report.
- 7.9. Any differences arising between those ATM-derived figures and the branch's declaration of the cash that remains in its ATM results in Post Office issuing a Transaction Correction (TC) which will impact the cash total that the branch needs to have in its ATM and its safe. In other words, any shortfall has to be made good by the Subpostmaster.
- 7.10. By comparison, banks and ATM operators other than Post Office, faced with any material ATM-related discrepancy, immediately send out their own investigators to establish the cause of the difference or problem, and this is sometimes found to have been caused by external theft. This triggering of an independent investigation seems not to take place in Post Office. Instead, Post Office simply issues TCs to "*resolve*" (i.e. to correct) any discrepancies, and any Subpostmaster wishing to challenge such a TC has nothing with which to support his claim, other than the 'Bank Totals Receipt' that he has retained in his branch, but that was *produced by the ATM itself*.
- 7.11. In the cases we have examined we found two instances where printed ATM-generated figures had been corrupted by the ATM itself. Whilst acknowledging that erroneous data was produced, Post Office states that it was not the vitally-important 'cash dispensed' figures that had been corrupted, in those two examples, but less important figures showing the number of rejected notes. Post Office also suggests that the data, in those two examples, became corrupted because branch staff had repeatedly filled, emptied and then re-filled cash cassettes such that the ATM became hopelessly 'muddled'.
- 7.12. Post Office denies that such corrupt data could ever cause losses in any branch. We are unable to endorse that reassurance, not least because it is self-evident that, were the more important 'cash dispensed' figures to be incorrectly reported by the ATM, then that would have far more serious consequences. We must also put this matter in perspective by stating that, in our view, the risk described in paragraphs 7.28 to 7.38 of this Report remains a far more serious concern.



7.13. When Post Office replaced some branches' fully serviced ATMs (where Subpostmasters did not have to fill them with cash, or account for the cash going through them) with ATMs where Subpostmasters were responsible for those tasks, that introduced, in our view, new procedural complexities with which some Subpostmasters were unable to cope.

7.14. In that context, we note that, in February 2008, Post Office issued a Manual Update, which it referred to as an '*Operations Manual interim*'. Post Office stated that it was issuing new instructions because:

*"a number of non-conformance issues are still affecting the processes for ATM reconciliation and settlement and to explain the correct end-to-end accounting processes relating to Bank of Ireland ATMs".*

7.15. The Introduction to the *Operations Manual interim* stated:

*"The Bank of Ireland, via the LiNK network, extracts a 16:30 - 16:30 'cash dispensed' figure automatically from your ATM each day. This figure forms the basis of a settlement to Post Office. This figure is the value of cash dispensed from your ATM from 16:30 the previous day until 16:30 on the current working day".*

7.16. It would appear that some Applicants misunderstood parts of the Manual Update, or failed to carry out every process they were meant to. Some Applicants say that they were repeatedly told by Helpline staff, when they were investigating differences that arose as a result of those misunderstandings and failures, that: *"the problem will sort itself out"* (though the problems persisted). Any differences would normally be expected to be 'resolved' by means of Transaction Corrections, but these sometimes led to further errors being made when the specific actions that then needed to be carried out, in dealing with those incoming TCs, were also misunderstood, or wrongly executed, by branch staff.

7.17. Many Applicants have also reported that they subsequently found that the Helpline's advice (which had sometimes allegedly *increased* their branch's apparent shortfall or surplus) was later countermanded. Comments referring to problems in understanding and/or implementing the advice given by the Helpline are found in the CQRs in nearly every instance where the Applicant experienced problems with an ATM.

7.18. A consequence of a user getting things wrong with the ATM's cash dispensed figures and inputting incorrect data, and hence causing an initial discrepancy, was that an 'out-of-sync' situation would develop where the branch's ATM would be expected (by BoI and by Post Office) to have an amount of cash in its cassettes that was materially different from the cash figure that the Subpostmaster had entered into Horizon.

7.19. Based on comments in many CQRs, the problems reported by Applicants, relating to this out-of-sync situation, became, it seems, what can be described as commonplace in some branches prior to the February 2008 release of the Manual Update.

- 7.20. The Manual Update confirms that, by following the new instructions, the process for entering data and balancing ATM cash will change and states that *"moving to the correct process is likely to result in a cash balancing difference"*.
- 7.21. Many Applicants have commented on the complexity of accounting, in Horizon, for their ATM's figures and on the general lack of clarity of the instructions issued by Post Office. This, many have said, led to them making mistakes when trying to comply with those instructions.
- 7.22. Many Applicants have stated that the only training that they received, when their branch's ATM was first installed, was provided by a Wincor Nixdorf engineer who was only able (and it seems only authorised) to teach them how to load cash into the cassettes and how to deal with the mechanical aspects of the ATM. They say that they were left to work out for themselves, primarily using User Manuals, how to carry out the ATM-related accounting on their branch's Horizon system. They also bore responsibility, under the Standard Contract, to train their own staff who, in many branches, would routinely thereafter carry out that accounting on their behalf.
- 7.23. This seems to have resulted in some Subpostmasters and their staff systematically repeating errors, not only in collecting the 'cash dispensed' and other figures from their ATMs and entering those figures into Horizon, but also in responding to the resultant stream of high-value Debit and Credit TCs that Post Office issued to correct the branch's accounts. Vitally, we believe that many of those systematically repeated errors were made because the instructions had been misunderstood, rather than because of carelessness or as a result of attempts to deliberately conceal branch shortfalls. It follows that, not realising that they were doing anything wrong, and consequently not realising that they needed to seek further training, they carried on making the same mistakes and got their branch's accounts into a complete mess.
- 7.24. Many Applicants have also commented on the apparent impact on their branch's ATM of power or telecommunication failures. Other than recording, in some cases, the dates and times of such failures, it was difficult for them to relate those failures to specific deficiencies. It is recognised that there are standard processes in place to deal with power cuts and connectivity interrupts and to ensure that no data is lost or corrupted when those events occur.
- 7.25. Nonetheless, the need, in such circumstances, for an ATM to be re-booted by the Subpostmaster, or for it to be remotely re-booted by Bol, could in our view, introduce a possible risk of data loss or corruption. Post Office has given assurances that this cannot happen, and that it never has happened, but some evidence seemingly contradicts those assurances and we have not been able to carry out tests to determine whether or not data can get lost, or be corrupted, by such interrupts.
- 7.26. Had we seen a practice of routinely, thoroughly and independently investigating ATM-related discrepancies, we would have been less concerned that power and telecommunications interrupts might have generated cash losses for Applicants.



- 7.27. We are aware of 'retract fraud', where externally introduced mechanical devices 'trap' cash that customers are trying to withdraw, but our position on this is that, for the purposes of our investigation, we remain relatively unconcerned about that type of fraud since it impacts principally on customers and their banks, rather than on Subpostmasters. We have consequently concluded that retract fraud has not caused losses to Applicants.
- 7.28. We are far more concerned about other, more sophisticated, types of ATM fraud and theft. It seems plausible to us, although this is not evidenced, that some of the large discrepancies reported by Applicants could have included losses brought about by those more sophisticated attacks. We are referring here to newer risks like 'transaction reversal fraud' and 'malware attacks' that circumvent an ATM's software controls. The risk and consequences of those types of theft, and the need to thoroughly investigate every apparent ATM cash shortfall, seems to us to have been under appreciated.
- 7.29. In referring above to "*malware attacks*", we mean attacks that are carried out by means of software that, when deployed, allows large amounts of cash to be dispensed by the ATM without leaving any record of it having been taken. In its response to our references to malware in the previously issued version of this Report, Post Office said that it:
- "is not aware of any form of fraud (including retract fraud) that creates a loss to Subpostmasters provided they follow the correct accounting procedures".*
- 7.30. In search of greater clarity on this matter, we asked Post Office to provide full details of any instances, in the last three years, where Post Office, Bank of Ireland or Wincor Nixdorf has detected an attack against a branch ATM using either malware or hardware devices.
- 7.31. Post Office has stated:
- "Post Office is not aware of any malware attack on its BOI ATM fleet that has resulted in loss to a branch. Hypothetically, if a loss of cash from a branch as a result of a malware attack was detected, that loss would be passed to BOI and not be absorbed by the branch"*
- and
- "Neither Post Office nor BOI are aware of any form of ATM fraud that will create a shortage in a branch if a branch is following the correct ATM accounting procedure"*
- 7.32. We take little comfort from Post Office's reassurance that it is unaware of any malware attacks or of any form of ATM fraud that can create a branch shortage. Post Office has also not confirmed whether it has received similar reassurances from Wincor Nixdorf. Its response has consequently not materially diminished our concerns that some of the Applicants may have suffered as a result of such attacks where the resultant cash shortfalls have been wrongly attributed by Post Office to errors made in the Applicants' branches, or to theft carried out by their staff (or by the Subpostmasters themselves) rather than to the work of external fraudsters.

7.33. Post Office has pointed out that a reconciliation is carried out each day by the LiNK platform to ensure that the sum of all cash withdrawals charged to customers' accounts equals the total cash dispensed by each ATM. We accept that this reconciliation process delivers a reliable control unless the outgoing cash dispensed figures, that are transmitted to LiNK and later printed out by branch staff and input into Horizon, have been fraudulently manipulated, as would be the case if the ATM's software has been successfully over-ridden (e.g. by malware) to ensure that its cash dispensed figures were reduced and that the stolen money was not charged to any customers' accounts.

7.34. We also observe, in response to Post Office's denial that this sort of attack poses a risk to Subpostmasters, that Banking Industry experts have confirmed to us that external ATM cash thefts have been relatively commonly encountered across all banks' ATM networks since 2008, and that the most sophisticated of those thefts leave no traces, other than large amounts of missing cash. We are aware, for example, of one malware attack, in May 2014 (that as far as we know did not involve any Post Office branch ATMs), where £1.3 million was stolen from 51 ATMs in a seven day period (i.e. averaging more than £25,000 per ATM). We are also aware that it was only the fact that many of those ATMs were completely emptied during the attack that led to the banks realising that their ATMs had been attacked.

7.35. In this context, Post Office:

*"accepts that there are other forms of fraud that may be occurring, however it is not aware of any form of fraud (including retract fraud) that creates a loss to Subpostmasters, provided they follow the correct accounting procedures".*

7.36. Post Office responded to our question, as to what sort of *routine* investigations are carried out (by POL/Bol/Wincor) when ATM cash shortages are reported by its Subpostmasters, by saying:

*"Any unresolved cash discrepancies can be escalated by the branch for further investigation by BOI, POL or Wincor as appropriate".*

7.37. We have seen no instances of any investigations that actually were carried out in response to any Applicant's complaint about an ATM shortage for which he or she was later held accountable.

7.38. In any event, we find it implausible that no such external theft-related cash disappearances have occurred across all of Post Office's 'fleet' of ATMs. We therefore remain concerned that Post Office accepts as correct whatever Bol reports as having been dispensed by each branch's ATM, without immediately and thoroughly investigating every material shortfall reported by its Subpostmasters.

## **8. Motor Vehicle Licences**

8.1. Not all branches are authorised to issue Motor Vehicle Licences (MVL) and only a small number of Applicants have reported problems with MVL processing. We have, however, seen a small number of instances of a particular problem. This relates to V11C forms that were misprinted

by DVLA with an incorrect bar code. This seems to have resulted in Horizon recording the sale of a tax disc, at the wrong price.

- 8.2. Post Office has stated that whilst this situation is undesirable, it would not give rise to a loss at the branch.

## 9. Foreign Currency Transactions

- 9.1. Whilst only 24 Applicants have referred to problems encountered in processing foreign currency transactions, our investigations of those cases, and particularly those ten cases where deficiencies arose prior to 2004, have identified some matters of serious concern. Indeed, one of those cases generated the largest loss of any of the 150 cases that we have examined. In that particular case, the loss that Post Office discovered during an audit, and that it then claimed back from the Applicant, was over £645,000.
- 9.2. Our investigative work led to us focussing on the interaction, in each of the branches that had used the Forde Moneychanger ('FM') machine, between that machine and the branch's Horizon system. The FM machine was a multi-currency 'electronic till' that was used in over 1,000 branches until its use was discontinued early in 2004.
- 9.3. That investigative work resulted in us forming the preliminary conclusion that the accounting for foreign exchange transactions was, prior to 2004, fundamentally flawed. Post Office has rejected our conclusion. The problems that we have observed, in relation to the interaction between the FM system and Horizon, have only been referred to by a small number of Applicants.
- 9.4. The FM machine, which Post Office has described as "*a component part of Horizon*", was a stand-alone device that converted sterling into currencies that were sold to customers, and also, less frequently, converted back into sterling those foreign currency notes that were bought back from customers. In effect, it was used to transact, and to support the accounting for, each branch's foreign currency transactions.
- 9.5. Each day's foreign currency transactions were entered individually onto the FM machine, which provided customers with receipts, and branch staff with a paper record of every transaction. None of those individual transactional details could be recorded on Horizon.
- 9.6. Horizon was, and still is, a *single-currency* system and is only therefore able to account for transactions in pounds sterling. It cannot hold records of individual foreign currency holdings. Each week's figures, for each branch, were consequently entered into Horizon by the branch as 'bulk totals' in pounds sterling.
- 9.7. The in-branch accounting process involved staff recording in Horizon, once a week, *the net sterling impact* of all of that week's foreign currency transactions and this was shown as one '*revaluation*' figure representing the branch's profit or loss on its foreign currency dealings. This meant that Post Office was unable to 'see' any of the individual transactions. Because of this,

all anti money laundering compliance responsibility necessarily devolved onto the branch but, more importantly in our view, it meant that Post Office was unable to detect transactional errors made in its branches.

- 9.8. This meant that, where any branch transacted at rates that were materially different from the 'approved' rates, Post Office had no visibility of those transactions. We are aware of highly material losses, that were booked to Post Office's Profit & Loss Account in 2003, about which Post Office had no knowledge, until alerted by an external party.
- 9.9. Post Office seemingly remained unaware of the significant losses that it was taking to its P&L Account because, as far as we can tell, those losses were all being subsumed in a mass of revaluation figures from the 1,000 branches that were then offering foreign exchange services. Post Office's accounting policy was to immediately book losses of around 5% of the cost of all the currency it purchased in the Money Markets. It then transferred the currency to its branches at a '*revalued*' cost figure that was 5% lower than it had really paid.
- 9.10. This meant that, even if a branch showed a positive revaluation '*profit*' each week, the reality was that, unless the profit achieved by that branch exceeded the 5% figure (which, at the approved sales rates, it would do) that 'profit' would not be enough to offset the large (5%) loss that Post Office had already debited to its P&L Account. However, individual branches were able to over-ride the authorised exchange rates and report a 'local' profit of far less than 5%, without any response from Post Office, even though that meant that it had then suffered an overall loss.
- 9.11. Had a sound multi-currency accounting system been deployed (as it is in any bank that conducts foreign currency transactions), the huge losses that were being made by that particular branch would have been immediately visible and doubtless quickly traced back to the transactions being carried out by one customer.
- 9.12. We have been unable, as yet, to determine whether the systemic inadequacies, that allowed the above-described losses to accumulate in that one case, might also have given rise to unexplained shortages in other branches and/or to more losses in Post Office's own books.

## **10. National Lottery**

- 10.1. Not all branches sell Lottery tickets or Lottery Scratchcards. Where these items are sold, they are usually sold from the co-located shop's retail counter, but they have to be accounted for using the Horizon terminal at the Post Office counter.
- 10.2. There is often a significant difference in the opening hours of the counter in the retail shop and the shop's Post Office counter. The retail counter will therefore be selling Lottery tickets/Scratchcards outside the hours when the Horizon system is operating at the Post Office counter. Since branches are not allowed to sell National Lottery products other than through the Post Office, each day's ticket sales have to be recorded, the following morning, in Horizon.

Also, before any Lottery Scratchcards can be sold, they must first be '*Activated*' on the Camelot terminal and then '*Remmed in*' to Horizon.

- 10.3. We have received many reports where Applicants have stated that their branch's Horizon system would get 'out-of-sync' with the quite separate Camelot system, thereby generating material surpluses or deficiencies that were eventually corrected by Post Office issuing Transaction Corrections (TCs) through the Horizon system. The average Lottery-related TC was approximately £650 and many of these TCs were for amounts that were exactly divisible by £160, that being the value of a full pack of Scratchcards.
- 10.4. Prior to 2012 most discrepancies on Scratch Card activations were caused by Subpostmasters failing to 'rem in' to the branch's Horizon system packs of Scratchcards (that they had activated on their Camelot terminal). In February 2012 Post Office introduced a system change (referred to as "*Ping*") that finally eliminated the possibility of synchronisation errors between the Horizon and Camelot systems.
- 10.5. Under the new process, activating packs of Scratchcards initiates a process whereby 'Transaction Acknowledgements' (TAs) are generated and sent electronically every morning to each branch's Horizon system. Now, before any routine transaction processing can be carried out, those TAs have to be 'accepted' by the Subpostmaster or by one of the branch's staff and, once that has been done, all the necessary entries on the branch's Horizon system, including updating the branch's stock of activated cards, are processed automatically.
- 10.6. This represents a considerable improvement on the prior process which, in our view, has materially reduced the opportunity for error. It has also reduced the opportunity for undetected theft of activated Scratchcards.
- 10.7. It follows that these Lottery-related problems appear to have been most serious and frequent prior to February 2010, at which point Post Office made that significant change to its Standard Operating Procedures. Although some problems still occurred during the next two years, the February 2012 system change eliminated the possibility that a branch could have packs of inactive Scratchcards recorded in Horizon or have activated packs that were not recorded in Horizon.
- 10.8. We have also been told by Applicants that, before those important procedural improvements, and that system change, were implemented, inconsistent and sometimes conflicting advice was provided by visiting Post Office trainers and by the Helpline, which further exacerbated their problems.
- 10.9. Occurrences of the out-of-sync problem appear to have been particularly prevalent in branches where an associated retail shop sold Lottery tickets and Scratchcards late into the evening, well after the Post Office counter had closed. A further complication often occurred on the final Wednesday evening of the monthly Trading Period when Subpostmasters were required to reconcile the Horizon and Camelot figures as a priority task on the Thursday



morning, rather than at 17:30 on the Wednesday, but this requirement was not always advised by the Helpline.

10.10. It is not clear whether the training and support that Applicants received always covered this important point and, where it was not covered, or where it was not adequately covered, then it seems Applicants and their staff sometimes made errors, and then systematically repeated them. To make matters worse, not realising that they were making those errors, they failed to seek from Post Office the further training that they needed.

10.11. When that happened, relatively high-value Debit and Credit TCs, that when viewed over an extended period would almost completely offset each other, would routinely be issued to the branch.

10.12. The receipt of such a repetitive stream of TCs generated two serious problems in affected branches: first, the branch's books would routinely be out-of-balance and those Subpostmasters who became conditioned to this state of affairs had to decide how to deal with sometimes substantial, transient surpluses and shortfalls. Secondly, the routinely out-of-balance situation would hide real discrepancies from view, such that they remained uninvestigated and uncorrected, thereby turning potentially recoverable errors into real losses.

10.13. Post Office's position on this is that:

*"if the correct procedures are followed, no loss will be suffered by the branch".*

10.14. In our view this is a simplistic and dismissive response that fails to acknowledge the real difficulties being faced by branches prior to those February 2010 process changes and the February 2012 introduction of TAs.

10.15. Post Office's response seems to ignore the fact that, as with the streams of high-value TCs issued to some branches in respect of ATM discrepancies (see paragraph 7.23 above), the frequent receipt of substantial, frequently offsetting, Debit and Credit Lottery-related TCs created a '*pendulum effect*' where mistakes that had been previously made in the branch were hidden because of its almost permanently out-of-balance situation, such that, as mentioned in paragraph 10.12, above, potentially correctable mistakes became real losses that had to be made good by the Subpostmaster.

## **11. Training, Support and Supervision**

11.1. The nature and extent of training provided by Post Office has developed over the years as described in our Briefing Report - Part One. In our opinion, the training was probably adequate for people who had reasonable levels of IT skills, numeracy and accuracy, though further product-specific training, rather than the use of Operating Manuals, was perhaps required for some Subpostmasters, especially those whose branches delivered a wide range of products and services.

- 11.2. We have been told by most Applicants that whilst their basic training was probably adequate in regard to general '*Business as Usual*' transaction processing, it was predominately sales focused and weak in regard to End of Day, End of Week and in particular, End of Trading Period, balancing. We have been advised by most Applicants that there was little or no coverage of how to deal with discrepancies (both surpluses and shortfalls); how to identify the root causes of recurring problems; or how to deal with Transaction Corrections.
- 11.3. Many Applicants have commented that, in the years prior to the installation of the Horizon computer system in 1999, they typically had only minor monthly surpluses (less than £30 seemed to be the norm) and that they first experienced large discrepancies shortly after Horizon was installed. Some have asserted that their problems became worse after Horizon Online ('HOL') was introduced (for most branches this was in 2010).
- 11.4. The fact that many Applicants have reported that they or their staff only started making serious mistakes after Horizon was launched, or after the branch migrated to HOL, could indicate a lack of understanding of how the system was then meant to operate and be used. That, in turn, could indicate that they had either been insufficiently trained; that they had been unable to properly train their staff; or that the new screen-based counter processes had introduced new ways of making mistakes that neither they, nor perhaps Post Office, was aware of.
- 11.5. We note that the duration of basic training has varied widely over the years and is now far more extensive than it was in 1998 - 2010 (the pertinent period for many of the Applicants). Post Office refers to the current routine provision of two weeks' training for Subpostmasters. Many Applicants have reported in their CQRs that they received fewer than two days' training and were simply handed Operating Manuals for self-study and to train their counter staff.
- 11.6. Post Office's trainers, and in some cases Applicants' line managers, do not seem to have been well regarded by many Applicants and appear to have been considered particularly weak when dealing with ATMs; Lottery processing; Motor Vehicle Licences; Foreign Currency and other specialist products.
- 11.7. Subpostmasters are responsible for training and supervising their own staff since Post Office has no contractual responsibility to train branch staff, other than in its Crown Offices. Post Office provides Subpostmasters with what it has judged to be relevant training materials for themselves and their staff, but it does not operate an effective quality control function in order to ensure that this further training is properly delivered. We have also found that further training for Subpostmasters was predominantly delivered in response to user demand, rather than being determined by Training Needs Analysis.
- 11.8. The problem with demand-driven training is that it only works when the users *recognise* that they need further training. It seems to us that, where mistakes are being systematically repeated, then the individuals who are making those mistakes will not be aware of that (or they would stop making them), so they are unlikely to realise that they need further training. Absent the necessary further training, mistakes become habitual and, where the Subpostmaster is the



one making those mistakes, then it follows that his staff will never be taught how to do things properly.

- 11.9. We recognise the complexity of the current product range and question whether a counter process involving over 170 products, operated by more than 78,000 people, of vastly differing levels of intellect, experience, numeracy and attention to detail, can ever be expected to work well without a fully effective and comprehensive training and support regime that covers everyone.

## 12. The Helpline

- 12.1. Many Applicants' CQRs have included examples where the Post Office's Helpline has, in their view, failed to provide worthwhile support when contacted. The relevant call log (when available) often does not provide sufficient detail, about exactly what advice was provided, in order for us to form an evidence based conclusion. Specific criticisms include:

- a) difficulty in contacting the helpline due to its limited availability;
- b) unhelpful, script-based, responses; and
- c) instructions received during one call that are said to have later, sometimes months later, been countermanded by another.

- 12.2. As previously stated, a frequently recurring response by the Helpline, relating to shortfalls, is said to have been:

*"don't worry about it, it will sort itself out".*

- 12.3. Many Applicants have reported that problems did not sort themselves out, nor was any indication given by the Helpline as to how long they should wait before realizing that a problem that had not sorted itself out would probably then not do so, nor how they were supposed to balance the books during the intervening period.

- 12.4. Many of the shortfalls suffered by Applicants to the Scheme have, on the balance of probabilities, been attributed to *"errors made at the counter"* but that does not, in our view, always mean that more extensive initial training would have eliminated all of those errors, although it would obviously have helped.

- 12.5. What we have observed is that, in many instances, the biggest shortages seem to have arisen as a result of *'errors made while trying to correct earlier errors'*. We attribute this less to inadequate *initial training* than to inadequate subsequent *support* when branch staff, when they were attempting to correct errors that they had previously made, just made matters worse.

- 12.6. Specifically, it has become clear to us that some Applicants and their staff became hopelessly muddled when they tried to follow the verbally-communicated advice of Helpline

staff. There have been numerous references to shortages doubling, trebling or even quadrupling as branch staff tried to correct, under instruction from the Helpline, errors that they had previously made.

12.7. Post Office's reliance on telephonically-conveyed advice was, in our view, misplaced. We hold the view that, had *written* instructions been issued to branches after their contact with the Helpline, fewer mistakes would subsequently have been made and fewer errors would have been made when attempting to correct those initial mistakes. Such written instructions should, in our view, have informed the branch staff exactly what sort of mistake they had made; exactly what instructions needed to be re-read in order to avoid making such a mistake again; and exactly what had to be done to correct it. We appreciate that this is not how the Helpline function is structured but we believe that it would have improved error repellency and the overall user experience.

12.8. That sort of (generally emailed) feedback has been standard practice among other companies for many years, yet Post Office has continued to rely only on those telephoned conversations. Even the records of those telephone calls, that Post Office has referred to as "*transcripts*" are not transcripts at all: they comprise only those notes that the Helpline operator typed out during the call. As such, they have, in most instances, provided us with only a limited understanding of the advice that was actually given. Also, copies of those notes are not sent to the person who called the Helpline. In that context, it has proved impossible for any of the Applicants, or for us, to challenge Post Office's assertion, made in its response to the previously issued version of this Report, that it has:

*"found no evidence to support the allegations that Helpline would often merely comment that matters would resolve themselves or be dismissive of any enquiry".*

12.9. It is clear to us that some Applicants expected the Helpline, visiting Post Office managers, or Post Office auditors to be able to tell them exactly how their branch's discrepancies had arisen. It is, however, equally clear to us that Post Office's Chesterfield-based Helpline staff cannot be expected to determine from afar how every discrepancy has arisen in every branch, so we regard those expectations as unreasonable.

### **13. Limitations in the Transactional 'Audit Trail'**

13.1. Many Applicants have claimed that, whilst acknowledging that some errors were probably caused by their own mistakes, they were often unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon, because the underlying transaction data was not available to them.

13.2. Post Office controls the Horizon infrastructure including back-office accounting and reporting functions. A consequence of this is that Post Office may hold Subpostmasters accountable for shortages that they are unable to fully investigate due to a lack of access to data. A Subpostmaster has very limited options in these circumstances and often has to make good losses even where the underlying root cause has not been established or properly understood.

13.3. The concerns fall broadly into three areas:

- a) data that isn't available even on the day of the transaction;
- b) data that was at first available, but after 42 days (later extended to 60 days when HOL was introduced) is no longer available; and
- c) data that isn't available after suspension.

**Data that isn't available even on the day of the transaction**

13.4. Applicants' concerns principally relate to transaction types where Horizon produces, at the end of day, only an *aggregate amount* and *volume* for that day's transactions. These transaction types are those where customers have paid for goods or services by debit or credit card.

13.5. In the event of an end-of-day discrepancy for one of these transaction types, and without the benefit of a disaggregation of a total amount into its constituent transactional components, Applicants found it difficult, if not impossible, to identify the individual transaction(s) that had brought about the discrepancy.

13.6. Typically, a Subpostmaster would need to find items:

- a) that should have been, but were not, included in the aggregate total; or
- b) amounts that had been incorrectly entered, such as £50.00 entered as £500.00, £39.00 entered as £93.00, a withdrawal processed as a deposit; or
- c) amounts that formed part of the aggregate total, but should not have been included in that total at all.

13.7. Only by finding those errors and omissions could Subpostmasters begin the process of correction and loss mitigation. This may sometimes have involved attempting to contact the relevant customer, but in order to do that they needed not only to identify the incorrect or missing transaction, but also to know the name, and perhaps also the address and telephone number, of the relevant customer.

13.8. Many Applicants have told us that, prior to the introduction of Horizon, it was easy to do this since the paper dockets, retained to evidence each transaction, provided this information. It is regrettable that the Horizon system does not appear to provide the same functionality as the previous manual system.

**Data that was at first available, but after 42 days (later extended to 60 days) is no longer available**

- 13.9. The main concern expressed about data availability is the need to refer to a previous period in the event that a Transaction Correction (TC) was issued by Post Office some while after the transaction (to which the TC relates) was erroneously input into, or omitted from, Horizon. TCs are issued for different reasons and different products may be treated in different ways. If the delay in issuing the TC exceeds 42 days (now 60 days), the Subpostmaster may no longer have data readily available with which to respond to the TC and may have no practical alternative other than to accept it. We have been told by Applicants that, if further data was requested from Post Office, such requests were often rejected on cost grounds.
- 13.10. We are also aware that the difficulty in printing and examining Horizon's 8cm wide 'till rolls' was a significant issue in locating the transaction(s) that had created discrepancies. Post Office asserts that branch staff are responsible for keeping records, typically for two years, and that those records, supplemented by information supplied with TCs, ought to be sufficient.
- 13.11. Late-delivered, high-value, TCs can pose serious difficulties for some branches. If the incoming TC is a Debit (i.e. a TC Invoice), that means that the branch ought to have been maintaining a surplus from the time that the error occurred until the time that the TC is accepted. In that Subpostmasters are contractually entitled to withdraw and retain surpluses, this can mean that they might do that, only to later find that they should not have done so.
- 13.12. More seriously, if the branch has not shown an overall surplus, that is likely to be because an offsetting shortfall was in existence as a result of an unseen, and consequently undetected and un-corrected, error.
- 13.13. Conversely, if the incoming TC is a Credit, that means that the branch ought to have been carrying a shortfall from the time that the error (that the TC is intended to correct) occurred until the time that the incoming TC is accepted.
- 13.14. This means that the Subpostmaster may have had to 'fund' that shortfall with his own money during the intervening period (even though that shortfall was in due course going to be corrected by the incoming TC Credit). In instances where Subpostmasters have been unable to make good such transient (though sometimes very large) shortfalls, it is possible that there will have been a temptation to falsify the branch's accounts while awaiting for the situation to "*sort itself out*".

**Data that isn't available after suspension**

- 13.15. Applicants have reported that their ability to investigate transactional discrepancies, or to defend themselves against allegations made by Post Office, were often thwarted because, following their suspension (usually on the day of an Audit) they were, as a matter of Post Office policy, denied access to their Branch. In many instances we have been advised that Post Office Investigators also removed records, often including personal documents such as diaries in which Applicants had noted problems that had occurred; to whom they had reported those

problems; what advice and instructions they had received; and what had resulted from following that advice or instructions.

- 13.16. Applicants have also reported that, despite their requests, they never regained access to any of the records they needed to establish the cause of shortfalls; to gather evidence of theft by branch staff; or, indeed, to prove their own innocence.

#### **14. Transactions not entered by the Subpostmaster or their staff**

- 14.1. Many Applicants have reported that Horizon transactions appeared to have been entered, or cash or stock balances changed, when the branch was closed and no one had access to any of the Horizon terminals.

- 14.2. Post Office has stated that it is not, and never has been, possible for anyone to access Branch data and amend live transactional, cash or stock data without the knowledge of Subpostmasters or their staff. However, we are aware that certain error recovery and correction processes can result in transaction reversals that carry the System Identity (ID) of the user who entered the originating transaction that the system itself is reversing, or the ID of the user restarting the system (see Section 15 '**Transaction Reversals**').

- 14.3. We note that this fails to easily differentiate between entries made by a user and those that are system generated.

- 14.4. One Applicant to the Scheme has given evidence relating to a facility in the Bracknell office of Fujitsu where he alleged that it was demonstrated to him that it was possible to alter Horizon transaction details without the knowledge of individual Subpostmasters. We have requested that the relevant email files from the period in question be provided to us in order to investigate this matter, but so far Post Office has only provided us with a small number of the files requested.

- 14.5. Our review of those files has been inconclusive, possibly due to just one month of data being provided, rather than the 12 months requested. We believe that it is essential to examine contemporaneous documents from the relevant time, in order to form a reliable, evidence based, conclusion on this important issue.

- 14.6. Several Applicants have stated that they believe (or suspect) that their branch terminals have been, or can be, accessed remotely or that their branch data can be amended without their knowledge or approval. Post Office has denied that it is possible to:

*"amend branch data remotely".*

- 14.7. It says that it does have access to branch data, but in a '*read only*' format. It has also stated that, if errors are spotted in the transaction data, the only way to amend the data is to issue a TC or a TA to the branch and that only when the branch 'accepts' that TC or TA is the branch's data amended.



- 14.8. We note, however, that Post Office has disclosed an October 2008 internal memorandum that included the remark:

*"Fujitsu have the ability to impact branch records via the message store but have extremely rigorous procedures in place to prevent adjustments being made without prior authorisation - within POL and Fujitsu".*

- 14.9. At the time of our writing this Report, Post Office has not explained whether or not that quoted statement was true at the time or whether, if it was true at the time, no such facility currently exists, as it seems to be asserting.

- 14.10. In our Interim Report we referred to a software bug in Horizon that had impacted a small number of branches. We have recently discovered two further documents that describe in more detail how Post Office handled this issue. In both of these documents a process is described that involves directly altering branch data. The fix for the error reported in the document named "Correcting Accounts for "lost" Discrepancies", created by a senior engineer at Fujitsu in September 2010, stated:

***"7. Fixing the Data for each Affected Branch***

*The data can be corrected by adjusting the appropriate Opening Figures and BTS Data that relates to the current TP. This will result in the Discrepancy needing to be processed when rolling over into the next TP.*

*I propose that if we are to do this then we take a copy of the data for one branch and check out the proposed changes on a test system and then rollover the branch on the test system to ensure that the discrepancy is handled correctly before we attempt to correct Live data.*

*Having done one example in this way, we then need to agree a timetable with Post Office Ltd to correct the other branches and ensure that this is communicated with the Branches to ensure that everyone involved is happy. Note that if it is decided not to correct the data in the branches (i.e. POL would prefer to write off the "lost" discrepancy), then adjustments will be required to the Discrepancy account in POLSAP to align this with the actual level of discrepancy seen at the Branches."*

- 14.11. This document refers to correcting live data - a procedure that Post Office denied was possible. Of potential significance is the fact that this was not just an internal document made available to a small number of Fujitsu employees, as the copy we were provided with was printed out by the head of Post Office's Legal Prosecution team in October 2010.

- 14.12. A further document titled "Receipts / Payments Mismatch issue notes" appears to be a Minute of a joint Post Office / Fujitsu meeting probably held in August 2010. The document refers to the impact of the bug in Horizon as being:

***“Impact***

- *The branch has appeared to have balanced, whereas in fact they could have a loss or a gain*
- *Our accounting systems will be out of sync with what is recorded at the branch*
- *If widely known could cause a loss of confidence in the Horizon System by branches*
- *Potential impact upon ongoing legal cases where branches are disputing the integrity of Horizon Data*
- *It could provide branches ammunition to blame Horizon for future discrepancies”.*

14.13. The Minute reported three possible solutions.

***“Proposal for affected Branches***

*There are three potential solutions to apply to the impacted branches, the groups recommendation is that solution two should be progressed.*

*SOLUTION ONE- Alter the Horizon Branch figure at the counter to show the discrepancy. Fujitsu would have to manually write an entry value to the local branch account.*

*IMPACT - When the branch comes to complete next Trading Period they would have a discrepancy, which they would have to bring to account.*

*RISK- This has significant data integrity concerns and could lead to questions of "tampering" with the branch system and could generate questions around how the discrepancy was caused. This solution could have moral implications of Post Office' changing branch data without informing the branch.*

*SOLUTION TWO - P&BA will journal values from the discrepancy account into the Customer Account and recover/refund via normal processes. This will need to be supported by an approved POL communication. Unlike the branch "POLSAP" remains in balance albeit with an account (discrepancies) that should be cleared.*

*IMPACT - Post Office will be required to explain the reason for a debt recovery/refund even though there is no discrepancy at the branch.*

*RISK - Could potentially highlight to branches that Horizon can lose data.*

*SOLUTION THREE - It is decided not to correct the data in the branches (i.e. Post Office would prefer to write off the "lost"*

*IMPACT - Post office must absorb circa £20K loss*

*RISK - Huge moral implications to the integrity of the business, as there are agents that were potentially due a cash gain on their system”*

14.14. Although it would appear that “SOLUTION TWO” was the adopted solution, it is clear from “SOLUTION ONE” that Fujitsu have the ability to:

*“manually write an entry value to the local branch account”.*



The risk of adopting this possible solution was described as:

*"RISK- This has significant data integrity concerns and could lead to questions of 'tampering' with the branch system and could generate questions around how the discrepancy was caused. This solution could have moral implications of Post Office' changing branch data without informing the branch."*

14.15. This ability to directly amend branch records is something that Post Office has consistently denied was possible. This recently discovered evidence appears to confirm, that in 2010 at least, it was possible for Fujitsu / Post Office to directly amend branch data without the knowledge of the relevant Subpostmaster.

14.16. In commenting on a draft of this report Post Office told us that the references to "amend" and "correct" in the documents mentioned above, are not strictly correct as neither Post Office nor Fujitsu have the ability to directly change or delete existing records. All that can be done is that additional records can be added by Post Office / Fujitsu without the consent (and possibly the knowledge) of the relevant Subpostmaster. This will, however, have the effect of altering balances at the branch, as both debit and credit entries can be made.

14.17. Post Office also told us:

*"All of the above processes for correcting / updating a branch's accounts have similar features. All of them involve inputting a new transaction into the branch's records (not editing or removing any previous transactions) and all are shown transparently in the branch transaction records available to Subpostmasters (as well as in the master ARQ data).*

*The language used in the documents produced by Post Office / Fujitsu and to which you refer is unfortunate colloquial shorthand used by those working on the Horizon system. I can see how it could be read to suggest that Post Office was "altering" branch data but the above explains why this is not the case."*

14.18. This is not something that we have been able to test or validate.

14.19. Clearly, the fact that such an ability exists, is not necessarily evidence that such 'amendments' were actually made. This is not something that we have been able to investigate.

## **15. Transaction Reversals**

15.1. As mentioned above, a number of Applicants have reported transactions that appear to have been input when the branch was shut and no one had access to the Horizon terminals.

15.2. A few Applicants have reported that they had entered an original transaction, but had not entered the reversal of that transaction, stating that the Horizon system appeared to have generated a transaction reversal, without their knowledge or their intervention.

- 15.3. This matter was also highlighted in a report by Helen Rose, Post Office Security - Fraud Analyst - dated 12 June, 2013:

*"... it is just that I don't think that some of the system based correction and adjustment transactions are clear to us on either credence or ARQ logs."*

*"However, my concerns are that we cannot clearly see what has happened on the data available to us and this in itself may be misinterpreted when giving evidence and using the same data for prosecutions"*

- 15.4. N.B. 'Credence' is a Post Office Management Information Reporting System and 'ARQ logs' is a reference to a request for Horizon information archived through the 'Audit Retrieval Query' process.

- 15.5. Post Office has stated that:

*"when this situation occurs it will not generate losses at the branch".*

- 15.6. We believe that, where the system itself has initiated the reversal of a transaction (such as it does when a terminal has not been properly logged off at the end of a day even though a transaction, or a transaction 'basket', sometimes referred to as a 'stack', that had earlier been entered on that terminal, has not been completed), Horizon should assign to that reversal some indication of that fact, rather than leaving the records showing that the user who input the now reversed transaction was the one who reversed it.

- 15.7. We also believe that Horizon should ensure that the person who originally input that (now reversed) transaction is properly notified of the reversal in order to give him an opportunity to mitigate any loss that might ensue were he to remain unaware of the reversal.

## **16. Cash and Stock Remittances (Rems) in and out of the branch**

- 16.1. A number of Applicants have raised issues concerning 'Rems'.

- 16.2. 'Rems' are inward and outward remittances of stock or cash (including foreign currency). Large amounts of cash and stock are routinely sent to and from branches using this process. Robust procedures are in place to ensure that the process normally operates reliably and that errors, or theft, are rapidly detected.

- 16.3. Occasionally however, branches will report that a Rem 'pouch' was not received or that it contained fewer items, or lower value, than the sender claimed. Similarly, Post Office will sometimes find that a Rem pouch sent by a branch is missing or its content has been overstated by the branch. Post Office deals with these discrepancies by issuing TCs that show the details of the shortfall or overage. Because such discrepancies relate to physical items, it is necessary to rely on witness statements and other documentary evidence as to the exact content of Rem pouches.

16.4. Some Applicants have described instances of foreign currency shipments being accidentally sent to the wrong branch. We are aware that some of these errors have occurred due to Post Office's Business Partner for Foreign Currency, First Rate Travel Services (FRTS) using an incorrect delivery address. Clearly, this introduces the possibility that an Applicant might have been held accountable for a shipment that was never received by his branch.

16.5. Post Office has told us that:

*"if this situation occurs it will be corrected using TCs once that Rem is scanned into Horizon" and that "if the Rem is not received there will be no loss to the branch".*

16.6. It remains unclear to us whether those reassurances totally eliminate the possibility of losses to Subpostmasters. Where, for example, an incoming Rem is never received by the branch that ought to have received it then the shipment may well have found its way into the wrong hands and a loss will sometimes ensue. We take it, from Post Office's reassurance, that such losses are borne by Post Office and/or by FRTS, rather than by any Subpostmaster.

## 17. Missing Cheques

17.1. As with other outward Remittances (see **Cash and Stock Remittances (Rems) in and out of the branch** above), branches 'Rem' to Post Office's main processing centre (in Chesterfield) all cheques that the branch has taken in each day. These are put together into 'Stripey' envelopes and collected by the Royal Mail after each day's cut-off time.

17.2. For almost all of the cheques that Post Office handles each day, everything normally goes smoothly, but some cheques do get lost or are accidentally spoiled either within the branch or at Chesterfield, while some envelopes do get lost in transit.

17.3. We have also been informed that it is possible for cheques to get damaged in Post Office's cheque processing equipment and therefore not be processed. In such cases, if the cheque is so badly mutilated as to be unreadable, the possibility arises that a branch might be charged, through the TC process, for a missing payment even though the cheque was sent to Chesterfield. Also, where a customer's cheque 'bounces', it will be charged back to the branch if the branch staff failed to follow Standard Operating Procedures. Post Office has stated that it will attempt, where possible, to obtain a replacement cheque from the customer.

17.4. Assertions have been made by some Applicants that customers' cheques (received in exchange for goods or services rendered at the counter) never cleared and they were held accountable for the value of those missing cheques. Post Office has told us that:

*"providing the correct procedures are followed there will be no loss to the branch".*

17.5. The problem, as we see it, with this reassurance is that certain practices seem to have evolved, as Subpostmasters have tried to provide the services that their customers need, which are not in accordance with what Post Office describes as "*correct procedures*".

- 17.6. Examples of this include repeated acceptance of cheques as the Method of Payment ('MOP') when selling Foreign Currency notes (this practice seemingly having remained un-noticed by Post Office for extended periods) and also cheques accepted as the MOP for bulk postage. The latter occurs where, for example, home-based internet traders routinely leave large quantities of outgoing parcels to be processed as time permits, these being settled to cash (even though no cash has been received) and where the customer returns to the branch, usually later in the week, to pay by cheque, at which point those earlier settlements to cash are reversed.
- 17.7. The point here is that, in our view, if branch practices have evolved, in respect of certain products, such that branches are routinely accepting cheques where the "*correct procedures*" say that they should not be accepted, then it becomes questionable whether those perhaps outdated procedures can justifiably be enforced such that Subpostmasters carry all of the risk.
- 17.8. Some Applicants have also complained that the TC process was sometimes so slow (in regard to cheques) that, by the time they had been advised that a cheque had been lost, mutilated or returned by the paying bank, all chances of mitigating their loss were gone.
- 17.9. Post Office has confirmed that Subpostmasters will not be held liable for cheques lost in transit and that, "*if all required procedures have been correctly followed*", they will not be held liable for cheque-related losses.

## **18. Pensions and Allowances**

- 18.1. A few Applicants have reported problems with Pensions and Allowances where Post Office's Investigators made allegations that they, or their branch employees, had stolen money by fraudulently manipulating Pension and/or Allowance payments. The allegations were that amounts had been recorded as having been paid out when they were not ('overclaims') or where Green GIRO cheques or Pension & Allowance dockets had been used more than once ('reintroductions').
- 18.2. Post Office's response described the way that overclaim and reintroduction fraud can be perpetrated and how the relatively easy to manipulate dockets have since been replaced by the more secure 'Post Office Card Account' (POCA) which uses 'Chip and PIN' technology. However, Green GIRO cheques are still in use by customers who have (or assert that they have) lost their POCA cards and by those on temporary benefits.
- 18.3. It is clear that, while overclaims can arise as a result of errors innocently made in a branch (e.g. by forgetting to remit a voucher), reintroductions involve a positive decision to re-process a benefit pay-out even though the genuine transaction with the customer has already occurred. Post Office concedes that reintroductions can happen by accident, but the Subpostmaster would still be liable for such errors and it regards multiple reintroductions as being indicative of fraud.

18.4. Post Office has stated that:

*"providing the correct procedures are followed no loss will be borne by the branch and any fraud will be readily detected".*

18.5. We were concerned that some Applicants, who had been accused by Post Office of fraud but not ultimately convicted of it, but who had in some instances been required to repay the allegedly stolen funds, might have themselves been the innocent victims of a far larger 'pattern' of fraud.

18.6. Post Office has informed us that no 'pattern' of fraud has been detected.

## 19. Surpluses

19.1. As stated in Section 6 above dealing with **The Contract between Post Office and its Subpostmasters:**

*"surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately".*

19.2. Post Office defines discrepancies as including both surpluses and deficits (i.e. shortfalls). We believe that the cause of all material discrepancies should be investigated and corrected. This should include consideration that discrepancies might have been caused by the system itself, or by errors occurring outside of the branch. It is only by doing this that the underlying root cause of the discrepancy can be established.

19.3. Feedback from Applicants has demonstrated to us that the preliminary investigative assumption adopted by Post Office appears to be that discrepancies will have been caused by "errors or problems at the counter or by theft". Post Office's confidence in the Horizon system remains very high and as such, the system itself will normally be discounted as a source of error.

19.4. In inputting data into Horizon it is possible that errors are made that generate a surplus, unbeknown to the customer or to a third party. For example, a surplus can result where a customer is underpaid at the counter, although this is likely to be detected straight away by that customer. Errors that are less likely to be detected by customers include deposits that are under-credited or not credited at all.

19.5. We understand that, although surpluses are expected to be retained by the Subpostmaster, it is possible to hold them in suspense by 'settling centrally' so that future shortages and Transaction Corrections can be offset against them. Many Applicants appear not to have been aware of this facility.

19.6. The failure to always investigate and correct material discrepancies is perhaps unique to Post Office's Business Model. Unlike commercial entities that do not operate on an agency basis, Post Office has, in our opinion, little commercial incentive to establish the root causes of



discrepancies because the burden of cost (and risk) is being carried in most instances either by its Subpostmasters, in the case of shortfalls, or by its customers or its clients, in the case of surpluses.

## **20. Cash withdrawals accidentally processed as deposits and other counter-errors that benefit customers at the expense of the Subpostmaster**

### **Cash withdrawals accidentally processed as deposits**

- 20.1. Mistakes can occur if the counter clerk accidentally touches the 'DEPOSIT' icon on the screen instead of the adjacent 'WITHDRAWAL' one, thus generating a deficit of twice the size of the customer's withdrawal. Such errors by branch staff can be difficult to isolate from the system-produced totals of 'swipe-card' transactions (see Section 13, **Limitations in the Transactional 'Audit Trail'**) unless the customer notices his windfall and then tells the branch about it. Absent such customer honesty and diligence, shortages brought about by such mistakes are very difficult to detect and mitigate.

### **Other counter errors that benefit customers at the expense of the Subpostmaster**

- 20.2. We have been made aware of cases where Applicants have been held accountable for shortages that have arisen through what Post Office refers to as "*errors made at the counter*", where customers have profited at the expense of the Subpostmaster.
- 20.3. Where a customer has received cash or goods and later discovered that his bank account has not been debited, or his credit card or POCA account has not been charged, it is quite possible that he will keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.
- 20.4. In mid-2008 the method of processing receipts into Girobank accounts was changed. Previously, customers completed a two-part paying-in slip. One copy of the paying-in slip was retained by the customer, another was retained in the branch and cross-referenced to the entry made on Horizon. Note: Alliance & Leicester acquired Girobank in 1990 and Santander took over Alliance & Leicester in October 2008 but, for ease of reference, all three organisations are referred to as 'Girobank' in this Report.
- 20.5. Prior to that mid-2008 processing change, the Subpostmaster would have been able to identify the amount of cash that had been recorded in the system by cross-checking with the paying-in slip. Hence, a correction could have been actioned and the branch's books brought back into balance. In such a case, the apparent cash shortage would have been eliminated because the audit trail enabled the specific cause of the shortage to be identified and corrected.
- 20.6. However, after that processing change, paying monies into Girobank accounts was normally actioned via swipe cards (Chip and PIN cards) with no supporting documentation being retained in branch.

- 20.7. After that processing change, the counter clerk would swipe the customer's card to access the account details and then key in the cash deposit. After inputting the deposit, the system printed out just one copy of a receipt (which specifically states on it "*NOT TO BE RETAINED*") and this was then passed back to the customer along with his swipe card. No documentation is retained in branch and nothing is sent to Girobank.
- 20.8. It follows that, if the counter clerk did not immediately spot an error, any later branch balance would show a difference between the cash holdings on Horizon and the actual cash holdings. However, after the processing change, there would be no supporting documentation available either to the Subpostmaster, or to Post Office centrally. Therefore neither the Subpostmaster nor Post Office's central processing unit would be able to check whether or not the cash deposit entries on the system reflected the actual amount of cash that had been deposited.
- 20.9. Post Office has stated that, although this type of error may occur, it would be an example of an "*error made at the counter*" for which the Subpostmaster would be liable in the normal way if a loss occurs. It also states that, under the new process, "*the audit trail is retained*" and that:
- "Horizon has a number of tools to assist Subpostmasters in identifying or tracing transactions, including transaction logs, event logs and balance snapshots".*
- 20.10. We cannot agree with those reassurances. Under the old (paper) process, the paying-in slips would be sent to the Finance Service Centre (FSC) which compared them with the Horizon transactional records and issued TCs if necessary. Under the new process, this after-the-event control no longer takes place.
- 20.11. Instead, a control process is now carried out *by the customer* who confirms, using the PINpad, that the amount shown on the screen is correct.
- 20.12. Our observation on this is that this new process introduces a risk, to Subpostmasters, that a customer, whose account will be credited with an amount greater than he has deposited, or whose account will be debited with an amount less than he has withdrawn, may either fail to notice the error or, if he does notice it, may intentionally disregard it and choose to keep the windfall.
- 20.13. It is clear to us that the process lost some important functionality when the change was made to phase out two-part paying-in slips. We find that the reliance on branch staff to accurately input data, and on customers to verify that the correct amount has been input into the system, is far from fool-proof, given that not all customers will appreciate that they have such an important role to play in checking that the transaction has been properly recorded and also that the customer may be the beneficiary of any error.
- 20.14. Further, once an error has been made, it can be very difficult to match any erroneous transaction with the customer who made it, and thereby recover missing funds. Relying on the branch staff being able to remember, and being able to contact, a customer who carried out a transaction, could, in our view, result in unrecoverable losses. As Subpostmasters are

contractually responsible to make good any losses arising from those *"errors made at the counter"*, it is, in our view, vital that they are able to easily locate and correct such errors and to recover missing funds.

20.15. Post Office asserts that:

*"paying in slips were phased out by Girobank so this change was outside of our control"* and that:

*"the automation of the process" was necessary to reduce the rate of errors made at the counter"*.

20.16. While the new process has reduced the risk that errors made at the counter would remain undetected at the counter, it will not have reduced the overall undetected error rate. The only procedural difference being that the customer now communicates the intended transaction verbally and then checks that it has been correctly keyed in but the Subpostmaster no longer has the safety net of staff at the FSC later checking that all customer deposits have been correctly processed.

20.17. Post Office does not seem to have considered the possibility that its perceived reduction in the number of errors made at the counter (since the phasing out of two-part paying-in slips) could be due to the possibility that some of those errors, that were previously detected by the FSC, are no longer being found.

20.18. In regard to our perception that the new process increases the risk of collusive fraud, Post Office has responded by asserting that:

*"the process changes did not introduce a greater degree of fraud risk to Subpostmasters"*.

and

*"the potential for collusive fraud was just as likely with the old process as it is now with the new one"*.

20.19. In stating that, Post Office has, in our view, failed to recognise that, following the process change, the control designed to detect mis-keying at the counter is now carried out *only by the customer*, whereas before, in the event that a surplus or shortfall was noticed later on in the day, that check-back could be carried out in the branch (by reference to the paper paying-in slips that would still be in the branch) and, if no discrepancy was noticed before those slips were sent off, then the mistake would later be detected by the FSC.

20.20. Also, under the old process, collusion between a customer and a counter clerk would involve the customer leaving a falsified paying-in slip in the branch, whereas, under the new process, the customer would not need to incriminate himself in that manner.

## 21. Error and fraud repellency and Horizon's 'fitness for purpose'

- 21.1. Normally, when a business detects errors or fraud occurring repeatedly, investigative and analytical work will be carried out to determine whether changes to its Standard Operating Procedures, to its hardware or software, or to its employee training and support procedures, should be made so as to reduce the likelihood and/or seriousness of future recurrence.
- 21.2. This process of investigation and analysis generates, over time, a '*Virtuous Circle*' of detection, loss mitigation and process correction/improvement, which contributes to the entire system's robustness and efficiency.
- 21.3. In not fully investigating "*errors made at the counter*", even where it is obvious that some of those errors have been systematically repeated in a branch, or even across the network, Post Office seems not to taken 'ownership' of finding ways to reduce (or manage) those errors.
- 21.4. This has led to a situation where Subpostmasters have been bearing the cost of losses caused by errors and fraud that could, in our view, have been designed out of the system, or where improved operational procedures and training could have reduced the incidence and severity of errors made, both "*at the counter*" and also in branch back offices.
- 21.5. In this context, Post Office states that transactions cannot be lost as a result of being interrupted by power cuts "*as long as the correct recovery procedures are followed*". After a power cut has occurred, the system must be rebooted. Once the reboot has taken place, Horizon should provide on-screen instructions on how to recover any transactions that could have been interrupted by the loss of power.
- 21.6. Post Office's position is that shortfalls cannot occur if the recovery procedures are correctly followed. It also states, in its response to the previously issued version of this Report, that it:
- "remains confident that branch accounts will not be corrupted due to power and telecommunications failures"*.
- 21.7. It incorrectly states, however, in that same document:
- "This recovery process was reviewed in detail by Second Sight in their Interim Report and found to work"*.
- 21.8. The reality is, as we stated in our Interim Report, that we have established, from our investigative work, that the system may not have always performed as it was meant to after a reboot, particularly if a power failure occurred at the same time. We have been told that, in some cases after a power failure, the main processor will automatically restart and commence the recovery process, but that the branch's screens will not automatically turn on. This means that any messages that are displayed as part of the recovery process, will of course not be visible to the user.

- 21.9. Post Office seems to make the assumption that all of the important messages that Horizon sends to the branch screens during the recovery process are visible on those screens and also that they are visible in time to be effective in ensuring that transactions are neither lost nor duplicated. This would appear to be an assumption that may not be correct in some circumstances, such as when a power failure has been the cause of the reboot.
- 21.10. Whereas the detailed instructions contained in the 'Horizon Transaction Recovery Guidelines' show Subpostmasters what they are meant to do if, when they are processing transactions, the system loses power or connectivity, it is clear to us that mistakes are likely to be made at this sometimes challenging time, particularly when the Horizon-produced '*Disconnected Session Receipts*' may have been misunderstood by branch staff or when the recovery process fails.
- 21.11. This process can therefore, in our view, be prone to generating losses, particularly in those instances where the customer has left the branch, sometimes without paying, after it may have appeared, both to him and to the counter clerk, that his intended transaction had been rejected.
- 21.12. Such a situation could result in the customer not paying for, or not receiving payment in respect of, his intended transaction. This will either result in a loss to the Subpostmaster or to the customer. The stress involved in such situations can, in our view, be materially heightened when irritated customers add to the situational pressure or where further power or telecommunications interrupts occur during the recovery process.
- 21.13. For the avoidance of doubt, we regard examples of this having happened as evidencing Horizon's failure to record transactions accurately.
- 21.14. We have formed the view that, as messages sent by Horizon to the branch terminals might not always be visible on the branch's screens, it can sometimes be difficult, or even impossible, for a Subpostmaster to correctly follow those recovery procedures. Another consequence of this is that transactions that appear not to have been processed (but have been) may then be re-entered and if, for example, such an accidentally duplicated transaction results in an extraneous credit to a customer's bank account, then it is possible for that customer to benefit at the expense of the Subpostmaster and to be the only person who can detect and report that error.
- 21.15. We have consequently concluded that it is possible for losses to occur in a branch as a result of power and telecommunication interrupts where it has not been possible for the Subpostmaster to "*correctly follow the recovery procedures*".
- 21.16. Applicants have referred to this issue in respect of Giro transactions that were being processed when power or telecommunications interrupts occurred and the branch's terminals and screens 'froze' or powered off completely. When this happens, Horizon invokes its 'Recovery Mode' and the system goes through a complete reboot, then, when it has finally



rebooted, a message appears (or is meant to appear) on screen (as long as the screen has been turned on again) asking "*do you need to recover any Giro transactions?*".

21.17. A few Applicants have reported that, when faced with that question, they usually did not know whether or not the system needed to recover any Giro transactions. They say that, if they responded in the affirmative, the system then asked for the details of the Giro transactions that needed to be recovered. As the user did not have the relevant details to hand (and could not access the data as Horizon was still completing its reboot process), they say they were forced into responding in the negative and hoping that this was the correct response.

21.18. This often resulted in the 'wrong' answer being entered and transactional errors being generated where transactions that should have been re-entered were not, or transactions that the system had already accepted were erroneously re-processed. Obviously, if such erroneously duplicated transactions included any where a customer had paid in a cash deposit, it was likely that the customer's account would be credited twice even though only one inward payment had been received from that customer.

21.19. This would result in a shortfall that the Subpostmaster would, under the contract, be obliged to make good unless that customer noticed the error from which he had benefitted, and then chose to repay the duplicated amount to the branch.

21.20. The following key question, that arises from the above observations, is:

*"Is Horizon fit for purpose?"*

21.21. In trying to answer this question, we recognise that, in the vast majority of cases, Post Office's Subpostmasters operate their branches year after year with minimal reported problems. For them, the Horizon system appears (subject to our observation in paragraph 4.6 above) to be "*fit for purpose*".

21.22. References here to '*the Horizon system*' are mainly focused on '*Horizon On Line*' (HOL), which evolved from the original Horizon application and was deployed in 2010. Our comments encompass not only the system itself but also supporting processes and procedures. However, some comments received relate to earlier versions of the system, a number of enhancements having been made following user experience and feedback.

21.23. For the Horizon system to be considered fully '*fit for purpose*' for all users, it would, in our opinion, need to accurately record and process, with a high degree of error repellency, the full range of products and services offered by Post Office, whilst providing a clear transactional audit trail allowing easy investigation of any problems and errors that arise. The cases that we have reviewed demonstrate that this design objective has not always been achieved.

21.24. A fully effective system would also need to be able to cope with a diverse collection of end users and operate in areas where power and telecommunications reliability could not be taken for granted. The cases that we have reviewed show us that errors are more likely to occur when unusual sets of circumstances and behaviour are present. We have little doubt that

branches with unreliable hardware, or poor telecommunications and power services and supplies, appear to have suffered a disproportionate incidence of problems.

21.25. We have also come to the conclusion that some of the people appointed by Post Office as Subpostmasters may have been unsuited, from the outset, to the ever-increasing complexity of running a computerised branch. These include those who:

- a) were relatively (or even in some cases totally) new to using a computer;
- b) had insufficient time and knowledge to be able to investigate and resolve shortages without substantial support and assistance;
- c) relied upon staff whom they may have 'inherited' from the prior Subpostmaster and who were either careless, inadequately trained or even dishonest; and
- d) lacked the financial robustness to be able to 'fund' every shortfall as it arose.

21.26. In any event, Post Office's recruitment and selection process, which on paper appears to be thorough and effective, seems to have sometimes failed to reject candidates who, when interviewed, showed signs of inadequacy and later proved themselves to be wholly unsuitable to hold the post of Subpostmaster.

21.27. Where such a person, who was either unsuitable, inexperienced or inadequately trained, was faced with problems, perhaps associated with hardware or telecommunications failures and the system's resultant restart and recovery procedures, it was at that moment that an otherwise repairable situation often turned into a catastrophe. For them, and in those specific and limited circumstances, Horizon could not be described as "*fit for purpose*".

21.28. In this context Post Office does not accept that it bears any responsibility for "*errors made at the counter*" even though it has frequently asserted, in its POIRs, that these were probably the root cause of a branch's losses. A simple example of this issue involves the common mistake of settling a transaction to cash instead of selecting 'Debit Card' or 'Credit Card' as the MOP.

21.29. When that mistake is made, the customer will, in effect, receive goods or services free of charge and the Subpostmaster will later have to make good the resultant loss. Post Office accepts that this is "*a common error*".

21.30. Whilst we recognise that no system can achieve a zero error rate, we hold the view that Post Office should acknowledge that it bears responsibility for detecting and acknowledging those system or procedural flaws that have allowed errors to repeatedly occur and also for then designing and implementing improvements to reduce the frequency and seriousness of such errors.

21.31. We have seen little evidence that convinces us that Post Office has done everything that it could have to discover the root cause of branch losses and to improve its processes and software so as to '*design errors out of the system*'.

21.32. In that the contractual arrangement that underpins the Post Office to Subpostmaster relationship places responsibility for branch errors squarely on the shoulders of the latter, it is to us unsurprising that driving down branch error rates has seemingly not received the attention that we would normally expect to see devoted to such a vital mission.

## **22. One-sided transactions**

22.1. Many Applicants have raised concerns regarding transactions involving debit or credit cards where Horizon has processed a transaction but the corresponding charge to the customer's bank account appears not to have been processed. In other cases the opposite situation occurred, where Horizon rejected (or appeared to have rejected) a transaction, but the corresponding charge to the customer's bank account apparently was processed.

22.2. One possible cause for this might be that telecommunications failures have occasionally prevented one side of a transaction being processed whereas the other side of it has been processed properly.

22.3. These transaction processing failures would be less troublesome if they were always detected, at the counter ideally, or later by additional control and reconciliation processes carried out by the Subpostmaster or by Post Office itself.

22.4. It is however not yet clear whether Post Office's in-house (after-the-event) reconciliation processes can be relied upon to always detect any one-sided transaction that the Subpostmaster fails to detect.

22.5. Where a customer has been charged for something that he has not received, there is a very high likelihood that he will detect this (for example if he receives a Final Demand for a bill that he believes he has paid) and will then complain.

22.6. On the other hand, where the opposite has happened, and a customer has received cash, or goods, and his bank account has not been debited or his card account has not been charged, it is perfectly likely that he will be unaware of his windfall or will simply keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.

22.7. It is important to understand that, where that sort of error occurs, no evidence of it is visible to the Subpostmaster *unless the customer discloses it*.

22.8. Post Office says, in referring to 'one sided transactions' in its response to the previously issued version of this Report:

*"this is an inevitable risk of transacting business across the internet and affects all retailers and banks".*

- 22.9. Post Office acknowledges that, in certain circumstances, one-sided transactions can occur, but asserts that it has robust procedures in place to detect and correct any such errors. Once again, it says that:

*"if these procedures operate correctly, no loss to the branch will occur".*

- 22.10. Our observation, in regard to those assurances, is to point out that the risk of such transactional aberrations is, in our view, markedly higher where two electronic systems have to operate in a synchronised way (as is the case with Horizon and the LiNK system), rather than where a single system is used, as is the case with other retailers and banks. We must also point out that few retailers, and no banks, hold their staff accountable for the losses that arise from such risks.

- 22.11. We note that Post Office's control and reconciliation procedures rely on correct information being supplied by third party clients. It follows that, if incorrect information is provided by any client company, this can give rise to a loss being charged to a branch. We also note that, for most of the past five years, substantial credits have been made to Post Office's Profit and Loss Account as a result of unreconciled balances held by Post Office in its Suspense Account.

- 22.12. It is, in our view, probable that some of those entries should have been re-credited to branches to offset losses previously charged.

### **23. Hardware issues**

- 23.1. An examination of the hardware in use in a typical branch reveals that much of the equipment appears to be quite old. In some cases it was first installed more than ten years ago.
- 23.2. There also seems to be little routine hardware maintenance. Instead, faulty equipment is replaced as and when needed. This process, referred to as "*kit swap outs*", principally involves the replacement of broken units with reconditioned ones. Reports of several reconditioned components or units being tried, and failing, before a working one was found, are not unusual. This is because much of the bespoke equipment used by Horizon is no longer manufactured.
- 23.3. The most commonly raised issues involved counter and back office printers, PINpads, touch screens, telecommunications equipment and base units.
- 23.4. Many Applicants believe that faulty equipment could be responsible for otherwise unidentified shortages. We have been unable to come to a reliable, evidence based view on this matter, but recognise this as a possibility. Post Office's position on this is that it cannot happen.

## 24. Post Office Audit Procedures

- 24.1. In many cases Applicants have told us that they were not given copies of the Audit Reports relating to their branches and that their enquiries to Post Office, in respect of those Audits, were never answered.
- 24.2. It is clear that Post Office's current practice is that each Subpostmaster is provided with a copy of the Audit Report for his branch. We do not know when this current practice was adopted or whether a similar policy was consistently applied in prior years.
- 24.3. A few Applicants have referred to having misunderstood Post Office's use of the term 'audit', saying that most of the 'audits' that they experienced were merely cash and stock counts that offered them no comfort in regard to how their branch (and sometimes the existing branch staff that they had been required to employ when they were appointed as Subpostmaster) was really operating.
- 24.4. Some Applicants have also questioned the competence of the auditors sent out to their branches, saying that some of them did not appear to have any professional qualifications in auditing or accounting and that many of them seemed to have scant knowledge of how the Horizon system was meant to operate.
- 24.5. For those Subpostmasters, particularly those who had prior experience of working in large companies, they felt themselves to have been denied the reassurance that a "*proper audit*" would normally have given them. We note that, once again, the Standard Contract places no obligation on Post Office to provide such a service to its Subpostmasters.

## 25. Post Office Investigations

- 25.1. As a result of our investigations we have established that Post Office's investigators have, in many cases, failed to identify the underlying root cause of shortfalls prior to the initiation of civil recovery action or criminal proceedings. This includes cases where Applicants brought to the Auditors' or Investigators' attention their own suspicions as to the underlying root causes of their branch's losses.
- 25.2. Many Applicants, and almost all the Professional Advisors, assert that there was inadequate investigation prior to suspension (in all cases without pay); termination; and civil/criminal action.
- 25.3. Based on the cases examined so far, Post Office's investigators seem, in our opinion, to have defaulted to seeking evidence that would support a charge of false accounting, rather than carrying out an investigation into the root cause of any suspected problems. Evidence to support a charge of false accounting is often easily obtained since, when confronted during interview with evidence of obviously over-stated cash figures, the accused person will often readily admit to falsifying the end of Trading Period Accounts.



25.4. With the exception of any interview conducted in accordance with the Police and Criminal Evidence Act (1984) we note that the interviewee is not allowed to be legally represented, although Post Office says that they may be accompanied by a 'friend'.

25.5. Post Office's true position in respect of such 'friends' and what they are allowed to say and do during, for example, interviews where contract termination is under discussion is, however, far from clear.

25.6. In that context, Post Office reassured Ministers, in its 17 December 2014 'Response to the Westminster Hall Adjournment Debate', that:

*"another person can attend with the Subpostmaster. This can be a friend, or another Subpostmaster or assistant or a representative of the National Federation of Subpostmasters. They can make a statement in support and working practice is that they can speak on behalf of the postmaster, if the postmaster agrees to this".*

25.7. Two months later however, in a letter dated 15 February 2015 to a Subpostmaster, in which he refused that Subpostmaster's request to have his solicitor attend a 'Branch Incident Appeal' a Post Office Agents Contract Manager said:

*"We allow Subpostmasters to be accompanied at interviews or at appeal by a 'friend'; however it does not allow the friend the opportunity to represent the Subpostmaster"*

and

*"A friend may only attend and listen to questions and answers. He must not interrupt in any way, either by word or signal: if he does interrupt he will be required to leave at once and the interview will progress without him".*

25.8. We cannot accept, in the light of that 15 February letter, that the assurance that Post Office has given to MPs really is its "working practice".

25.9. Interviews are usually recorded and, if an admission of false accounting has been made, this will virtually always trigger a 'Guilty' plea by the defendant and often an associated repayment proposal. As a result, Post Office's investigators seem to have found that obtaining admissions of false accounting was the key to achieving relatively rapid, and (to Post Office) inexpensive, asset recovery.

25.10. As a consequence of this, Post Office's investigators seem to have de-emphasized the importance of unearthing the true root causes of the "mysterious shortfalls" that some Applicants claimed to have suffered. When faced with requests from Subpostmasters for investigative help, this has often been refused.

25.11. It is clear, from comments made by Applicants, that those refusals were contrary to their expectations and it seems to have come as a surprise to many of them when they learned that Post Office's Investigation Division has no mandate to provide general investigative support to

Subpostmasters. The following quote, from one Applicant, was echoed by others who said that they really believed that they were entitled to receive investigative support from Post Office:

*"I believe that POL never embarked upon a genuine and meaningful investigation of what was the root cause of the discrepancies"*

and, referring to section 12 of the Standard Contract, he says:

*"In light of this I believe that there was simply a culture at POL to hide behind this clause without having to discharge their duty to properly investigate".*

25.12. It seems that few Applicants were aware that Post Office's refusals to provide on-site investigative support were in line with Section 19, Paragraph 12 of the Standard Contract, which states that:

*"The Investigation Division does NOT enquire into matters where crime is not suspected".*

25.13. We note that this 'double-negative' wording (and Post Office's established practice) does not mean that the Investigation Division can be expected to carry out investigative work *where crime is suspected*. This has led to situations where some Applicants have found that, even where one or more of their employees was suspected - both by themselves and by Post Office - of having stolen branch funds, no investigative work was carried out.

25.14. This then left them with a contractual responsibility to repay the resultant losses, but with no help from Post Office in recovering any of the stolen money from those who had taken it. In some instances Applicants faced with this situation received no meaningful help from the police either, the police having adopted the position that the investigation ought to be carried out by Post Office's investigators.

25.15. We asked Post Office to provide details of its Policy and Standard Operating Procedures in regard to helping Subpostmasters recover shortfalls that they have made good as a result of proven theft by branch employees and it has answered as follows:

*"Recovery of losses caused by theft by branch assistants is a matter for Subpostmasters as the assistants are their employees. Post Office may help, as a matter of goodwill, but there is no policy in this regard".*

25.16. It has been pointed out to us that Post Office's instructions to (and its training of) its investigators seems to have disregarded the possibility that the Horizon system could ever be in any way relevant to their investigations. A consequence of this flawed approach to investigations is that many opportunities to develop process improvements have been missed.

25.17. This issue becomes even more important when criminal charges are brought against a Subpostmaster. Post Office's policy is to bring a private criminal prosecution against the Subpostmaster rather than to report the matter to the Police and then allow the Crown Prosecution Service to prosecute.

- 25.18. By bringing private prosecutions (which it is entitled to do) Post Office itself becomes responsible for ensuring that its lawyers adhere to the Code for Crown Prosecutors which includes ensuring that any cases that it brings to the Courts pass the tests that the CPS itself would apply.
- 25.19. These include determining whether it has sufficient evidence to provide a realistic prospect of conviction against each suspect on each charge and whether a prosecution is required in the public interest.
- 25.20. By carrying out those tests itself, Post Office runs the risk of being accused of circumventing those checks and balances that a separate and *independent* body would otherwise have carried out.
- 25.21. We are aware of cases where criminal charges have been brought which appear to have been motivated primarily by Post Office's desire to recover losses. In some cases, those criminal charges do not seem to have been supported by the necessary degree of evidence and have been dropped prior to trial, often as part of an agreement to accept a guilty plea to a charge of false accounting, so long as the defendant agreed to repay all of the missing funds.
- 25.22. We have also been told of agreements whereby no mention was to be made in Court, by the defendant, of any criticism of the Horizon system.
- 25.23. We remain concerned that some of these decisions to prosecute may have been contrary to the Code for Crown Prosecutors with which Post Office, as a private prosecutor, is required to comply. In order to investigate this matter we had requested access to the complete legal files held by Post Office in a number of cases.
- 25.24. Post Office has stated that this subject is outside the scope of our investigation. We strongly disagree with this view.

## 26. Conclusions

- 26.1. When we started our work on these important matters in July 2012, we believed there was a shared commitment with Post Office to "*seek the truth*" irrespective of the consequences. This was reflected in us being provided with unrestricted access to highly confidential and sensitive documents, including legal advice relating to individual cases. This position was recognised and well received by other stakeholders, including the Rt. Hon. James Arbuthnot MP and the JFSA.
- 26.2. However, as time progressed, and particularly in the last 18 months, it has been increasingly difficult to progress our investigations due to various legal challenges by Post Office. There have been considerable delays in receiving responses to requests for information and legal issues have been raised, such as Data Protection and Legal Privilege, as being the reason various documents could no longer be provided to us.

- 26.3. We found that types of document previously provided to us without restriction, were no longer being provided. Some of these documents were also not being provided to Post Office's in-house team of investigators.
- 26.4. We can only conclude that this represented a policy decision by Post Office at a senior level, possibly based on legal advice. We consider this regrettable, particularly in the light of assurances previously provided to ourselves, MPs and the JFSA.
- 26.5. In expressing our disappointment in finding ourselves unable to complete our independent investigation in the way that we considered necessary, we wish to place on record our appreciation for the hard work and professionalism of Post Office's in-house team of investigators, working for Angela Van Den Bogerd, Post Office's Head of Partnerships.
- 26.6. Our work would have been much harder and taken much longer without the high quality work carried out by this team. We have also received excellent support from the administrative team set up by Post Office to support the Working Group.
- 26.7. We also valued the guidance provided by the Mediation Working Group, chaired by Sir Anthony Hooper, until its abrupt dissolution on 10 March 2015.
- 26.8. We have described in this report the results of our investigations (some of which are incomplete) into the issues and concerns raised by multiple Applicants. As we have previously stated, when looking at the totality of the '*Horizon experience*' we remain concerned that in some circumstances Horizon can be systemically flawed from a user's perspective and Post Office has not necessarily provided an appropriate level of support.
- 26.9. We believe that Post Office should be much more alert to possible problems with Horizon and encourage its staff to develop a much greater degree of '*professional scepticism*' in this regard.
- 26.10. We hope that this report, although incomplete in a number of important respects, will shed some light on the important issues raised by the 136 Applicants accepted into the Mediation Scheme.

The logo consists of the letters 'GRO' in a bold, black, sans-serif font, enclosed within a rectangular border made of small dots.

Ian R Henderson CCE, CISA, FCA

9 April 2015

The logo consists of the letters 'GRO' in a bold, black, sans-serif font, enclosed within a rectangular border made of small dots.

Ron Warmington CFE, FCA

Second Sight Support Services Ltd.

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## **Appendix 1**

### **Complaint Review and Mediation Scheme**

A paper prepared by Post Office to assist Second Sight with the finalisation of their Briefing Report – Part Two

Version three

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



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## **Introduction**

As part of the Initial Complaint Review and Mediation Scheme (the Scheme), Second Sight is engaged as a firm of forensic accountants to provide a logical and fully evidenced opinion on the merits of each Applicant's case.

On 21 August 2014, Second Sight's Briefing Report – Part Two (the Report) was sent as a confidential document to a number of Applicants and their advisors, as well as to Post Office. The purpose of the Report was to describe and expand on common issues identified by Second Sight as being raised by multiple Applicants (a thematic issue). The aim being to provide general information that could then be applied in specific cases.

Post Office has been unable to endorse the Report. It wrote to recipients of the Report immediately after its release setting out its reasons for this, and prepared a Reply which was released on 22 September 2014, detailing its position on the issues raised within the Report.

Further, within Second Sight's Briefing Report – Part Two, several issues were said to require further investigation. With a view to moving the Briefing Report – Part Two to finalisation, the Secretariat offered to assist Second Sight in resolving these matters.

The following paper is written to aid this process, detailing the additional questions posed by Second Sight and the answers provided by Post Office.

Post Office was provided with the questions on 9 December 2014 and committed to provide answers to the questions posed before a meeting with Second Sight on 9 January 2015. In line with the short timetable, Post Office's approach was to identify a subject matter expert within its organisation to, where possible and proportionate, answer each question. Post Office was not therefore able to comprehensively search for information nor canvass views on each question from all parts of its business. The answers provided in version one represented the best information possible given the limited time available but should not have been considered exhaustive.

## **Note on version three**

Version one of these answers was provided to Second Sight on 7 January 2015 and subsequently discussed at a meeting between Post Office and Second Sight on 9 January 2015.

At this meeting and the face to face Working Group meeting on 14 January 2015, Second Sight clarified its position on a number of the questions. This has enabled Post Office to provide further information (to those included in version one) through the provision of version two (provided to Second Sight on 27 January 2015) and version three (provided to Second Sight on 19 February 2015).

## 1. Transaction anomalies associated with CASH or STOCK Remittances (including counterfeit notes)

Post Office is aware that there is an issue of counterfeit notes being circulated within the UK economy in general. This is an issue that affects all businesses and Post Office has in place various policies and procedures in order to detect counterfeit notes and prevent them being circulated within the Post Office's network of branches.

- The large majority of costs / losses associated with counterfeit notes are claimed from other parties (e.g. clients, cash suppliers, etc.) with Post Office branches being held liable for a very small number;
- Where responsibility for allowing counterfeit notes to enter the Post Office network cannot be established, Post Office absorbs the loss itself.

The process used in Post Office can be summarised as follows:

- Once a counterfeit note is identified by Post Office, it is verified by a second person.
- Post Office then determines responsibility for allowing the counterfeit note into the network based on the information included on the Plastic Bank Note Envelope (PBNE), an envelope used to seal the cash as it is moved around the network;
- If a branch is found to have not followed correct procedures, it may be held liable for the loss created by taking a counterfeit note.

### 1.1. Please provide full details of the following:

- a) All procedures and controls in place to detect and prevent damaged or counterfeit notes being issued to branches as REMs;

The Post Office's Cash Centre is responsible for issuing remittances of cash to branches.

There are four key elements within the Cash Centre that ensure the integrity of notes it sends out to branches:

- Use of High speed note counting machines. Each note is checked for all possible characteristics and any notes that fail to meet the required standard are rejected, either because they fail to meet the Bank of England's note quality standard or because they are counterfeit.
- Daily calibration. Each note counter (there are 7 in use nationwide) are calibrated daily using a standard pack (a test bundle of mixed quality notes) by specialist onsite engineers. This check ensures that the counters will identify counterfeits and non-standard Bank of England notes and that they are removed from circulation. The calibration check exceeds the standard set out by the Bank of England and is subject to regular audit by the Bank.
- The Note Circulation Scheme (NCS). Under the NCS, the Bank of England does not distribute banknotes and instead, wholesale cash operators, including

Post Office, sort and distribute notes. Under the NCS, all notes Post Office put into circulation must be integrity checked.

- b) All procedures and controls in place to detect damaged or counterfeit notes in outward REMs sent from a branch to a cash centre;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- c) All procedures and controls in place that prevent notes included in an outward REM from a branch being sent to another branch as an inward REM without being counted or checked for damaged or counterfeit notes;

All inward remittances from Post Office branches are opened in the Cash Centre before being sent out through the cash cycle again i.e. the notes are checked before being remitted out to branches as per above. There is no process for cash to be sent from branch to branch.

- d) All procedures and controls used to ensure that notes issued as REMS for use in ATMs meet the relevant quality standards;

All cash that leaves the Cash Centre for ATM use is checked to ensure it is counterfeit free and is fit for ATM dispense in line with the Bank of England's note standards. Please refer to the answer provided in 1.1a for further information.

- e) All procedures and controls used in branch to detect counterfeit notes;

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help. Please refer to Annex 1 for further information.

- f) The procedures to be followed in branch when a Subpostmaster detects counterfeit notes; and

There are comprehensive guidelines included within the Methods of Payments section on Horizon Online Help, with seven different scenarios covered. Please refer to Annex 1 for further information.

The seven scenarios covered are as follows:

- Identifying counterfeit banknotes;
- Treatment of counterfeit banknotes;
- Remitting counterfeit banknotes;
- Counterfeit notes found loose in official cash;
- Counterfeit notes returned by a customer;
- Counterfeit notes impounded when presented by customers for a transaction;

- Counterfeit notes found in a deposit prepared by an Alliance & Leicester (now Santander) business depositor.

g) Who bears the loss associated with accepting counterfeit notes?

There are detailed procedures documented on Horizon Help to assist the branch in dealing appropriately with counterfeit notes. If the branch follows the correct procedures as detailed on Horizon Help then the branch is not held liable for any associated loss. Please refer to Annex 1 for further information.



## 2. Transaction anomalies associated with Pensions and Allowances

One of the issues raised by a small number of Applicants to the Mediation Scheme relates to alleged transaction anomalies which, it has been claimed, are connected to Pensions and Allowances (P&A).

Typically, this has revolved around allegations of re-introduction fraud. This fraud involves P&A vouchers being entered into Horizon twice (known as a “reintroduction”). The fraud occurs where a customer visits a branch to receive a pension payment. First, the customer provides the staff member at the branch with a P&A voucher and receives their pension as cash in return. The staff member then enters the voucher into Horizon in order to account for the cash that has been paid out to the customer. The P&A vouchers are sent on a weekly basis to the Department of Work and Pensions (DWP). The act of entering the same P&A vouchers into Horizon twice is called reintroduction. Where this is done in error, it creates a surplus of cash in the branch. Where reintroductions are frequent and there is no surplus, these are strong indicators that reintroduction fraud is taking place at the branch.

Post Office has previously provided Second Sight with a paper on P&As. Annex 2 supplements the responses provided in this section.

### 2.1. Please provide full details of the following:

- a) Data mining or similar techniques used to identify branches which have processed unusual volumes of P&A vouchers or have processed previously used P&A vouchers i.e. 'Reintroduction' fraud;

P&A vouchers are no longer used by Post Office – DWP replaced them with the Post Office Card Account. The information below is therefore a historic process about which only limited information is available.

Typically the process may have involved some or all of the following:

- DWP staff in Lisahally used to conduct rota checks of all P&A submissions.
- If they identified a discrepancy in a pouch they would check the previous month to see if this identified a pattern. The Date Stamp indicator would often be used as a method of identifying potential suspects and the method, e.g. over-stamping a voucher with a second date.
- If further discrepancies were found they would then go back as far as possible which was normally no more than 12 months.
- At each stage their check would be corroborated and recorded stating who had carried out the checks and what had been found.
- As this was happening, Post Office (FSC) was advised by the DWP of the discrepancy and, if it was deemed necessary, an investigation may be begun by Post Office.
- Post Office Security would arrange for the branch P&A submissions to be intercepted by Royal Mail.
- These would be manually checked, recorded and retained by the allocated Security Manager.
- Any discrepancies would be scheduled and recorded along with any DWP findings in preparation for attending the branch.
- An audit may be arranged at the branch and the P&A foils on hand would be checked and recorded as live evidence.

- Fujitsu logs may be requested if required to confirm who had made the Horizon entry for the fraudulent transaction.

b) All procedures and controls used to detect 'Reintroduction' fraud;

See answer 2.1a and Annex 2.

c) Any cases in the last 3 years where outgoing P&A vouchers have been stolen or lost in transit;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

d) Who bears the loss associated with lost or stolen P&A vouchers?

See Annex 2.

e) Any cases in the last 3 years where P&A vouchers have been re-presented at a branch by a person unconnected with that branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

f) Any cases in the last 3 years where forged P&A vouchers have been presented at a branch;

As detailed within Annex 2, P&A vouchers are no longer used. They were replaced by the Post Office Card Account in circa 2005.

g) All procedures and controls used to detect forged P&A vouchers;

Please refer to answer 2.1a.

h) Who bears the loss associated with accepting forged P&A vouchers?

A Post Office branch would only be held liable for a loss associated with P&A vouchers if they had been negligent, had not followed correct acceptance and processing procedures or acted fraudulently.

2.2. Are branches required to ensure that the value of the cheques and vouchers being remitted each week matches the value of benefit pay-outs recorded on Horizon?

At the time of P&A vouchers being used for transactions within Post Office branches, those branches would have been required to validate that the amount they were claiming as being paid out to customers (as shown on Horizon) matched the value of the P&A vouchers on hand.

### 3. Transaction anomalies following telecommunication or power failures

Another issue raised by a number of Applicants to the Mediation Scheme was that of alleged transaction anomalies flowing from telecommunication or power failures. Power and telecommunications failures are a risk to any business as branches and Post Office are reliant on third party suppliers for these services. Recognising this risk, Horizon was designed with "recovery" processes in place to correct any issues caused by a power or telecommunications failure. Post Office notes that as yet no evidence has been adduced to show that either of these events will cause losses in branches where the recovery process has been correctly followed by branch staff.

#### 3.1. Please provide full details of the following:

- a) Any tests carried out that ensure that Horizon's screen-based recovery instructions are visible to the person looking at the branch terminal when a power failure or telecommunications failure (or both at the same time) has occurred or is occurring;

The recovery process is shown on the Horizon terminal screen and will therefore, always be visible to branch staff.

- b) The information that needs to be entered by the user to complete the screen-based recovery process;

When the recovery process is carried out, a recovery receipt will always be printed as part of the next log on after the failure and a recovery event will be recorded in the Horizon Event Logs.

Depending upon the stage an individual transaction had reached at the time of the failure, Horizon may ask questions of the Subpostmaster to help decide whether or not that transaction was complete. Annex 3 – 'Transaction Recovery – Horizon Online Reference Guide' – details the questions asked for the different scenarios.

- c) Any tests carried out that ensure that the backup mobile telecommunications facility works effectively in all locations and in all circumstances including busy, multi-position branches;

Branch back up availability is tested once a week on a rolling basis (one seventh of the estate is tested every night).

- d) Any tests carried out when a branch is upgraded to Horizon Online that confirm that a reliable signal is available for the backup mobile telecommunications facility.

Please refer to the answer 3.1c.

#### 4. Transaction anomalies associated with ATMs

A number of Applicants to the Scheme have raised complaints in relation to alleged transaction anomalies connected with ATMs.

Post Office has previously provided Second Sight with papers in response to their questions involving ATMs. Annexes 4 and 5 supplement the responses provided in this section.

- 4.1. Please provide full details of any instances in the last 3 years where Post Office, Bank of Ireland or Wincor Nixdorf detected an attack against a branch ATM using either malware or hardware devices. Please describe the technical measures in place to prevent or detect this type of attack.

Post Office is not aware of any malware attack on its BOI ATM fleet that has resulted in loss to a branch. Hypothetically, if a loss of cash from a branch as a result of a malware attack was detected, that loss would be passed to BOI and not be absorbed by the branch

Details of the technical measures in place to prevent malware attacks have already been provided to Second Sight in Post Office's note on ATMs – see Annex 4.

It is not clear which types of "hardware devices" are being considered by Second Sight. If this relates to cash trapping devices, Post Office has already explained that this type of attack will not cause loss to a branch – see paragraph 7.4 of Annex 4.

- 4.2. Given the evidence that the Rejected Notes totals, in several 'Print Totals' output reports by ATMs, have on occasions become corrupted, on what grounds does Post Office assert that the Dispensed Notes totals could not also be corrupted, thereby showing that the ATM had dispensed fewer or more notes than it really had?

The Print Totals receipt is only used for managing the ATM cash levels and to allow the Subpostmaster to identify when the ATM needs to be reloaded with cash. As per all transactions/inputs that take place on an ATM, Print Total details are recorded on the ATM's Electronic Journal. However, the information on these receipts is for the local management of the ATM only, is not used as part of daily/weekly ATM accounting and the data is not used outside of the local management of the ATM. This is demonstrated by the fact that the Subpostmaster must zero the totals on the Print Totals receipt when they reload cash into the ATM, which can be done as often as required.

Where some corruption of the rejected notes total occurred there is evidence of erratic and unusual behaviour by the postmaster in the management of hardware (cassettes) and software (Print Totals; balancing activities). For example, many activities were repeated multiple times in a very short space of time. Cassettes were loaded, unloaded, reloaded. Print Total instructions were performed multiple times, sometimes with different cassettes in or out of the ATM, in the space of minutes, and then repeated. In these circumstances it is not surprising that the ATM's logical functions may have been affected. However following the stated operating procedure would allow these totals to be reset without there being any impact on the cash dispense/balancing of the ATM as it is the Bank Totals and the ATM Totals receipts that are required to complete the daily and weekly ATM accounting procedures.

It is the Bank Totals receipt that specifically details the value of cash dispensed by the ATM on a daily basis. The value of cash dispensed is taken from this receipt and recorded through Horizon. This value is tied back to the value of cash that has been dispensed through ATMs for each particular day. In summary, all ATM transactions are confirmed between Bank of Ireland and the Card Schemes, the vast majority of which are processed via LINK, as having



successfully taken place. Any discrepancies between LINK and Bank of Ireland's data would be investigated before Post Office would be involved. The total value of ATM cash dispensed is then settled on the next working day between Bank of Ireland and Post Office. This total value is checked by Post Office and matched against the individual ATM dispense records. Therefore any discrepancy in the cash dispense figures would therefore be identified as part of the settlement process.

It should be noted that in 2011 a full investigation of ATM cash dispensed figures in relation to M040 was undertaken by Bank of Ireland and Post Office Security. For the month of April 2009 the daily cash dispense figures were compared back to the actual settlement to ensure these were aligned. No discrepancies were found.

In 2012 POL Security also undertook an investigation in relation to M042 that looked into the number of Rejected notes that were reported on the ATM during April 2011. Bank of Ireland provided electronic journal data for the dates in question. While no discrepancies were identified with the daily cash dispense figures reported by the ATM the exceptional high rejected notes figure appears to have resulted from the sequence of actions that took place at the ATM. It was determined that resetting the Print Totals resolved the local issue without any impact on the cash dispense records for the ATM.

- 4.3. Is it a Post Office requirement that when an ATM is installed that the branch immediately creates a separate stock unit for the ATM? How is this policy monitored and enforced?

Yes. It is stated in the Post Office Accounting Instructions for Bank of Ireland ATMs that a separate ATM stock unit must be created when the ATM is first installed. The ATM accounting instructions then refer to this separate stock unit throughout, as required.

The use of an ATM stock unit is not monitored separately as it is just one of the mandatory steps to be followed to properly account for the ATM. Post Office monitors the completion of daily cash declarations and weekly balances. Where these processes are not being conducted, this is followed up with the individual branches.

- 4.4. In circumstances where the Bank of Ireland generates incorrect ATM cash dispensed figures for both the branch's ATM and in the figures supplied directly to Post Office, please describe the controls and procedures in place to detect and investigate this type of error.

This question has already been addressed through correspondence with Second Sight around Suspense Accounts. Please see Annex 6.

- 4.5. Please explain why it is necessary for Subpostmasters to manually print and enter onto Horizon, the contents of the daily '16:30 - 16:30 ATM Reports' when the same information is sent electronically to the Bank of Ireland and then to Post Office.

It is necessary for Subpostmasters to key the data in because the ATM is not connected to Horizon and branches need to know the amount of cash dispensed from the ATM in order to prepare the daily cash declaration.

- 4.6. Please provide full details of the following:

- a) Any investigation in the last 3 years in which a technical fault was discovered with the ATM which produced a shortage when balancing the ATM or a loss on the Horizon ATM stock unit. How was the associated loss dealt with by Horizon?

Post Office does not collate statistics on the numbers of "technical faults" in the ATMs across its entire network. It manages issues with ATMs on a case by case basis.

ATM related enquiries can be raised by branches through a number of routes depending on the circumstances (Contract Managers, Field Support teams, NBSC, FSC, BOI / Wincor, etc.). Only a fraction of those enquiries would relate to "technical faults" – although it is not entirely clear what is meant by this phrase. It should be noted that even where there is a "technical fault" this does not mean that cash has been lost or a branch's accounts have been impacted. For example, there could be a mechanical failure that causes the ATM to not vend cash.

If an issue raised by one branch may have an impact in other branches, this will be escalated through the appropriate channels. The escalation route depends on the nature of the issue but this could be through FSC, Post Office's network support teams, Post Office IT or Bank of Ireland.

As a general proposition, a "technical error" in an ATM cannot directly cause an error in the Horizon ATM stock unit as the ATM is not directly connected to Horizon. Should however a "technical fault" occur in an ATM that were to cause a loss to a branch, the branch would not be held liable for that loss unless the branch had failed to follow the correct ATM accounting procedures.

- b) Any escalated investigation in the last 3 years relating to unresolved cash discrepancies involving a branch ATM;

See answer to question 4.6a above.

- c) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor discovered that any of their authorised engineers or representatives had stolen cash from any branch ATM;

There is no record of an authorised engineer or representative (excluding Subpostmasters) of Post Office, Bank of Ireland or Wincor stealing cash from an ATM.

The only incident that Post Office is aware of relates to a Wincor employee in 2013, though at this juncture it remains only an allegation. No branch in the Scheme was affected by these alleged incidents.

- d) Any instance in the last 3 years in which Post Office initially determined that a cash loss was attributed to a Subpostmaster but where it was subsequently found that the Subpostmaster was not responsible for the loss;

As explained to Second Sight previously, Subpostmasters can challenge any cash loss or Transaction Correction in their branch in relation to ATMs. In many circumstances the information needed to determine the cause of a discrepancy is only held by a Subpostmaster.

It is therefore likely that there have been occasions when a Transaction Correction against a Subpostmaster has been challenged and reversed – in accordance with standard operating practice.

- e) The guidance issued to Subpostmasters relating to the '16:30 - 16:30 Print Totals Reports' in circumstances where the rear door of the ATM is located in a retail shop or other non-secure area. Is the Subpostmaster required to close the retail shop when obtaining the '16:30 - 16:30 Print Totals Reports' in these circumstances? How does Post Office monitor and enforce this policy?

The Print Totals Report is not required for balancing the ATM and does not have to be printed out on a daily basis as it is only required when additional cash needs to be loaded into the ATM.

As detailed in the Bank of Ireland ATM Operator Manual, this receipt is used to ensure cash is correctly loaded into the ATM (i.e. to ensure the correct number of banknotes is placed into the ATM).

As the ATM safe/cassettes would need to be accessed at this point, and in accordance with the guidance included in the ATM Operator, Accounting Instructions and Post Office Security Manuals, the premises must be closed to the public at this time.

It should be noted that the Bank Totals receipt (24 hour cash dispensed figures for 16.30 to 16.30) needs to be printed on a daily basis to allow the cash dispensed figures to be entered into Horizon. As only the rear cabinet door to the ATM has to be opened, and not the ATM safe, this receipt can be printed while the branch is open to the public.

Security procedures at branches are part of the compliance audits undertaken at branches. Subpostmasters are asked about the branches security procedures at the compliance audit so Post Office can verify that the correct processes are being followed.

- f) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor became aware of a customer receiving more cash than they were entitled to from an ATM. Please also provide full details of how the resultant cash shortfall was dealt with in the branch's ATM/Horizon balancing process and whether any Subpostmaster was held accountable for losses that were later found to be attributable mechanical problems with an ATM;

This question has already been addressed in Post Office's paper to Second Sight on ATMs which explains the processes used to detect, and protect branches from third party fraud.

In relation to the statistical information sought, see the answer to question 4.6a above.

- g) How Post Office detects and deals with incorrect items reported in the ATM '16:30 - 16:30 Print Totals Reports' in circumstances when the incorrect figures have also been reported electronically to Bank of Ireland. Please also describe the accounting treatment of any loss that occurs in these circumstances;

Post Office does not consider that ATM reports are unreliable. However, if there were an issue with the 1630 report, it would be the same data feeding through to Bank of Ireland. Therefore, if the Subpostmaster accurately keyed in the 1630 data (accurately from the report which, it is being claimed, could be wrong) then the data in Horizon and the data at the Bank would both be the same (and wrong). In that event, Post Office FSC would not identify any issue as the two figures agree with each other.

It would be the Subpostmaster that would be in the position to detect the anomaly. This is because the Subpostmaster is required to do a weekly physical balance of their ATM at intervals, during which (if the 1630 report were wrong) they would find a difference between the physical cash in the machine and the cash that the 1630 data indicates should be in it.

The Subpostmaster would then be able to make a call to the helpline as with any other balancing issue.

There is no unique accounting treatment that would arise in such a situation. Post Office finance systems would include the 1630 data and any enquiries/disputes about that data would be handled in the same way as any other balancing queries.

- h) Any instance in the last 3 years in which Post Office, Bank of Ireland or Wincor has become aware of any theft relating to an ATM, that was carried out (or suspected of having been carried out) by any person other than a Subpostmaster or a branch employee. Please also describe the accounting treatment of any associated loss.

Please refer to the answer provided to 4.6 c.

## 5. Transaction anomalies associated with Lottery Terminal or Scratchcards

A number of Applicants to the Mediation Scheme have complained of alleged transaction anomalies relating to the lottery terminal in their branch or the accounting process for Scratchcards. Post Office has addressed these issues in detail in its investigation reports and in its response to Second Sight's Part 2 Report.

- 5.1. Please provide full details of any instance in the last 3 years in which any Post Office or Camelot employee or representative has been found to have stolen Scratchcards or any other Lottery products/prizes.

There have been no such incidents that Post Office is aware of.

- 5.2. Has Post Office ever issued an instruction that unused Scratchcards must not be collected by Camelot representatives? Please provide full details of the circumstances that gave rise to any such instruction being issued.

Post Office procedures for the return of activated and Unactivated Scratchcards is detailed on Horizon Online Help. The relevant extract is appended at Annex 7.

Further, there are regular Branch Focus updates reminding branches not to give packs to Camelot Representatives. An example of which is appended at Annex 8.

- 5.3. Is it possible for a Camelot representative to activate packs of un-activated cards without the knowledge or approval of the Subpostmaster? How would this unauthorised activation be dealt with on Horizon?

Anyone with access to and knowledge of the Lottery Terminal in a branch (which is often located in the retail side of the premises) would be able to activate cards. Unactivated packs should, however, be held securely by the Subpostmaster and the Lottery Terminal would be expected to be subject to a form of security in branch as it is sited with cash and retail stock. Ultimately, preventing unauthorised access to the Lottery terminal is a Subpostmaster's responsibility.

If an unauthorised activation were made, it would currently lead to a Transaction Acknowledgement (TA) being sent to the branch to "rem" the pack in. Prior to the deployment of TA's, it would have led to a Transaction Correction (TC) being sent to the branch, with the same effect of remming the pack in.

Both of these events (TA or TC) would lead to a message being presented on Horizon to branch staff requiring formal acceptance by the branch. They could in turn be challenged and more evidence asked for by the Branch. The TA or TC could be validated against records from the Lottery Terminal.

- 5.4. Is it true that whenever a claim for a prize is made, in respect of at that point an un-activated Scratchcard; the entire pack from which that card was taken is automatically activated? Please describe the accounting treatment of any Scratchcards that are activated in this manner.

Yes. The subsequent accounting would be the same as noted above in the response to 5.3



5.5. Prior to the changes made to Standard operating Procedures in February 2010, and the subsequent implementation of 'Ping' in February 2012, did Post Office find that many branches were making similar mistakes in regard to processing Scratchcards? Please provide full details of the types of mistakes that were routinely being made. Please also provide a schedule showing for each month, how many TCs were issued and of what aggregate value (separating TC Invoices from TC Credits) during the years 2005 - 2011 in respect of Lottery matters?

There are number of reasons that a TC can be generated in relation to Scratchcards and each is handled on an individual basis. However, in Post Office's experience some of the more likely reasons for TCs are:

- Branch rems in stock on Horizon but does not activate it on the Lottery terminal – This would mean that stock in Horizon is "inflated". A comparison would be made between the records of stock activated on the day and the volume of stock entered into the Horizon system. This scenario would require a debit TC to remove the stock from the Horizon system. The TC would not affect the cash balance in branch.
- Branch activates stock on the Lottery terminal but do not rem it in on Horizon – This would mean that stock in Horizon would be lower than physical stock in branch. Any sales made would potentially push the branch into negative stock. A comparison would be made between the records of stock activated on the day and the volume of stock entered into the Horizon system. This scenario would require a credit TC to introduce the stock into the Horizon system. The TC would not affect the cash balance in branch.
- Stock adjustments – Branches have been known to use the stock adjustment function to introduce stock into the branch. Lottery Scratchcards are "value stock" meaning that they feature on the balance sheet and form part of the branch's overall stock value. By adjusting stock into the branch rather than introducing stock via a remittance the volume of the stock adjusted into Horizon reduces the cash holdings in Horizon by the equivalent value. When the branch next declares their cash, there will be a cash gain. This scenario would require a debit TC to introduce the stock into the Horizon system. The TC would not affect the cash balance in branch.

It is noted that all of the above causes of TCs are a result of errors by branch staff however none of them cause an actual loss to a branch. The TCs simply correct errors in the accounts.

On the following page is data on the volume of TCs issued for Scratchcard transactions. Post Office does not have readily available data to separate this into credit and debit TCs, break this down by month or on their value.

Year	Volume of TCs
2005	77
2006	273
2007	2286
2008	4529
2009	12242
2010	9156
2011	9061
2012	2219
2013	123
2014	3368

Post Office considers that these figures are influenced by multiplied business as usual changes in process and procedure (both in the accounting for Lottery products and the issuing of TCs). These can cause the number of TCs to fluctuate.

## 6. Transaction anomalies associated with Foreign Currency

Post Office is not aware that alleged anomalies connected to foreign currency transactions have been raised by a material number of Applicants to the Mediation Scheme. Second Sight's questions on this subject are answered below however this issue may be better addressed on a case by case basis.

- 6.1. Please provide full details of how the Forde Moneychanger ('FM') system operates. Please explain in detail how FX deals were accounted for and the instructions that were provided to Subpostmasters.

The Forde Moneychanger was used to manage foreign currency transactions and stock in branches before these functions were carried out on Horizon. Each morning, the branch would receive a fax with the daily exchange rates on it and a member of staff would enter each rate into the machine manually. The machines also sent rates to the rate board (which displayed the rates to customers) and, once this was done, a member of staff checked the rate board to verify that the rates were displayed correctly.

All foreign currency transactions were entered individually onto the Forde Moneychanger throughout the week and the machine used a carbonated till roll to provide the customer with a receipt and branches with a copy of all transactions and balances.

Each night a stock report could be run to check the daily totals. Each Wednesday the machine was balanced and the totals were then transferred by a member of staff onto Horizon where the foreign exchange stock would be 'balanced' again. The figures were entered onto Horizon as bulk totals; individual transactions were not entered onto Horizon.

- 6.2. Also, how does the FM system, and Horizon, account for the difference between a transaction carried out at a Special FX rate and the expected Normal FX rate? As an example, if a customer was given €150,000 in exchange for £100,000, whereas the Normal FX rate would have only given him €145,000, how did the FM and Horizon systems account for the €5,000 difference? What flexibility was or is available to Subpostmasters when agreeing to non-standard FX rates?

The Forde Moneychanger machine was a stand-alone piece of equipment used to convert sterling into currencies bought and sold to customers. Print-outs from the machine detailed the value of currencies on hand that the user would validate by way of a physical check. The sterling equivalent of these currencies was then entered into the Horizon system. A revaluation amount was also detailed on the print out and entered into the Horizon system. Providing the amount of foreign currency on hand matched what the system stated should be there, the branch accounts (specifically the foreign currency stock unit) would balance as the revaluation figure accounted for the difference in exchange rates from one accounting period to the next. The actual exchange rate at which currency was sold was irrelevant as this was accommodated in the revaluation figure. So, by the Applicant selling currency at a more favourable rate to the customer and processing this through the Forde Moneychanger machine (i.e. manually altering the rate on the machine) the stock unit accounts would still balance.

A special rate for foreign currency transactions over £2,000.00 could be obtained by contacting First Rate Travel Services by telephone at the time of the transaction. The transaction would then be processed via the FM machine at the special rate.

- 6.3. Allegations have been made about unauthorised access to transaction data by staff located at the Fujitsu office in Bracknell. As previously requested and agreed, please provide the email archives in PST or NSF format for Post Office staff working in Bracknell during 2008.

In light of the discussions had with Second Sight and clarifications given, Post Office is working with Second Sight to provide an appropriate response to this request. Further to your conversations with Belinda Crowe on 20 January, you agreed to provide the specific questions to which you were seeking answers and the key words you would use to undertake a word search on any further data that it may be possible to provide. We are still waiting to hear from you on that and will pick up with you separately.

**7. Transaction anomalies associated with Bank / GIRO / Cheques**

- 7.1. We are aware that every night, a data file is sent to every bank into which its customers' have deposited funds, and from which its customers have withdrawn funds. It is then those banks that bear the responsibility to reconcile Post Office's record of what has taken place with their own records of the entries that have been processed each day into their customers' accounts.

This is a statement with no question to answer

- 7.2. It follows that each of those banks is expected by Post Office to take action where (for example due to telecommunications interrupts between a customer's bank and a branch's Horizon system) a customer's account has not been debited or credited by the bank when Post Office's records show that it should have been, or where a customer's account has been debited or credited by the bank when Post Office's records show that it should not have been. The bank would then usually use this data to correct its errors and remove the additional deposits from the customer's bank.

This is a statement with no question to answer

- 7.3. Please provide us with a schedule listing all TC's issued to branches in the last 12 months relating to this type of adjustment.

Post Office does not understand the premise of this question nor the nature of data sought. As Second Sight notes, in relation to certain (but not all) banking transactions, through a reconciliation process banks make corrections to their records to bring them into line with the actual transaction that occurred in branch (as recorded on Horizon). In the usual course of events, this would not typically generate any return of monies back to POL – rather this is a process for correcting an accounting error in the bank's internal records.

Post Office believes it may be useful for Second Sight to meet with individuals from Post Office to discuss this matter in more detail.

- 7.4. Please provide us with a schedule listing all amounts received back from any bank, in response to that reconciliation process in the last 12 months, clearly describing the accounting treatment of those amounts.

Post Office believes it may be useful for Second Sight to meet with individuals from Post Office to discuss this matter in more detail.

- 7.5. We are aware that in some circumstances a customer may benefit from a duplicated transaction. Please provide full details for any such instances that have been occurred in the last 3 years and state whether any Subpostmaster was held accountable (during any period beyond the end of a Trading Period) and required to make good the resultant shortfall.

As described in Post Office's more detailed paper at Annex 11, this scenario does not give rise to any loss to a branch.



- 7.6. We are aware that the November 2008 phasing out of two-part paying-in slips increased the possibility of error or fraud impacting Subpostmasters. Please state what compensating controls were implemented as a result of this process change and describe the consultative process that was used prior to implementation. Please provide details of the anticipated cost savings associated with this process change together with the estimates of increased financial risk i.e. the cost benefit analysis carried out by Post Office.

Issues regarding Girobank deposits that are in scope have already been addressed in the paper at Annex 9, as previously supplied to Second Sight. As described in that paper, the change from paying-in slips to "chip and pin" was driven by the client bank and was beyond Post Office's control. Any cost-benefit analysis would therefore have been undertaken by the client bank and not Post Office.

- 7.7. Please provide us with a schedule showing the monthly volumes (and the aggregate values) of EN/TC Invoices compared to Credits that were issued to branches, in regard to Giro payments and Girobank Deposits and Withdrawals, in the years 1999 – 2013.

Post Office does not have ready access to data for the whole of the period specified nor data broken down by month. However, it does have the data below from September 2007 to March 2014. Please note that in this data "deposits" includes "payments".

Post Office does not know which particular issue raised by Applicants this data is seeking to address. If Second Sight requires data to a more granular level of detail, we should be grateful for a discussion of the purposes behind this enquiry so we may determine what data may be available.

	Deposits				Withdrawals			
	INV Vol	INV Val	CR VOL	CR VAL	INV Vol	INV Val	CR VOL	CR VAL
12/09/2007 – 29/02/2008	394	£506,933.38	405	£383,657.28	68	£67,470.60	4	£2,552.53
01/03/2008 – 20/07/2008	512	£775,872.53	1313	£712,001.37	115	£81,228.49	16	£10,298.19
21/07/2008 – 30/11/2008	536	£713,095.51	1089	£943,522.55	114	£101,184.30	41	£24,772.69
01/12/2008 – 29/03/2009	344	£598,717.76	857	£709,507.76	121	£67,745.68	47	£42,509.91
30/03/2009 – 31/07/2009	809	£637,728.32	1310	£622,835.14	200	£110,373.64	301	£164,959.51
01/08/2009 – 20/12/2009	953	£711,573.85	1855	£826,017.44	363	£146,115.00	211	£108,235.80
21/12/2009 – 28/03/2010	725	£374,822.88	994	£339,616.36	357	£164,125.79	127	£44,357.28
29/03/2010 – 22/08/2010	922	£466,555.30	1550	£668,247.50	468	£312,902.88	193	£80,220.78
23/08/2010 – 16/01/2011	1066	£574,025.36	1471	£606,932.02	336	£109,771.19	129	£43,713.69
17/01/2011 – 10/06/2011	918	£368,104.06	2801	£1,298,855.06	243	£51,066.72	89	£48,359.15
11/06/2011 – 29/11/2011	1079	£445,894.49	2228	£904,488.57	246	£61,975.31	88	£21,932.00
30/11/2011 – 08/05/2012	1144	£478,580.60	1891	£908,126.80	188	£50,975.24	74	£16,776.02
09/05/2012 – 31/03/2014	3846	£1,536,867.77	8625	£3,738,560.29	957	£426,747.32	233	£80,811.08
		<b>£8,188,771.81</b>		<b>£12,662,368.14</b>		<b>£1,751,682.16</b>		<b>£689,498.63</b>

- 7.8. We note that cheques not covered by a Cheque Guarantee Card were not an acceptable Method of Payment for certain transactions e.g. the sale of Foreign Currency. Please confirm whether or not Horizon is programmed to reject unacceptable Methods of Payment in these circumstances. Also, if a branch has systematically been accepting cheques in amounts that exceed approved limits, is there a process whereby those repeated errors are detected and corrected?

Horizon can advise on the method of payment, but a clerk can in practice choose to take a cheque instead of cash, for example, but still record the transaction as cash on Horizon. Horizon is programmed to indicate the appropriate methods of payment for products. If card payment is not acceptable then it would not be offered and the card would not be recognised. If cheque is not acceptable then the cheque payment icon would not appear but Post Office cannot control whether a branch chooses to ignore that fact and still take a cheque and process at the point of settling the transaction as a cash payment

Whether or not a cheque was covered by a Cheque Guarantee Card was not the reason behind whether a method of payment was acceptable regardless of whether a guarantee card was presented. Acceptable payment methods were dictated by what range of payment methods Post Office's corporate clients wanted Post Office to offer.

As regards the Cheque Guarantee Card, these no longer exist as they were phased out by banks.

- 7.9. We are aware that in some circumstances Horizon does not record transactions accurately. Specific examples include:

Post Office is not aware of the "circumstances" alleged by Second Sight in this question.

- a) Where, during Horizon's recovery mode processing, some transactions, that were not processed, or were only partially processed, may not be properly corrected when the system invites the counter clerk to correct the errors or omissions and, if the screen instructions to the counter assistant are interrupted (as would be likely to happen where there are telecommunications or power interrupts) then discrepancies may ensue;

The transaction may not be recorded accurately but that is due to how the clerk applies and follows the "recovery instructions" which have been issued to branches (please refer to Annex 10). Whilst it may have been the system that had a connectivity issue, the error in accounting would be due to the user's failure to follow the recovery instructions, not a failure by Horizon to record it accurately. Accounting process is covered by the recovery instructions at Annex 10. The quick reference guide has been provided in response to question 3.1b.

- b) Where misalignment of screen icons results in the inadvertent execution of the wrong type or value of transaction;

There is a screen calibration application which can be invoked at any time by the Subpostmaster from the Engineering menu of Horizon. If the screen is out of calibration then that would affect the whole screen and not individual icons so it would be obvious to the user that the screen had gone out of alignment. If this issue is noticed and a call made to the helpdesk then the subpostmaster or staff member would be asked by the agent to re-calibrate their screen to fix the issue.

- c) Where Foreign Currency transactions have been incorrectly accounted for through interaction between the Forde Moneychanger System and Horizon (Note: we regard the FM system as a component part of 'Horizon'); and

As described in Section 6, such errors would be the result of user error.

- d) Where system-to-system interface problems result in incomplete transaction processing e.g. where a PINpad, PayStation or other piece of equipment fails to complete its part of a transaction.

If the above scenarios took place, the transaction would simply decline or the customer would be asked for an alternative method of payment. As the transaction would be declined and the branch's accounts thereby left in balance, there is no need for any follow-up accounting process.

- 7.10. Please provide full details of the controls and procedures that will detect these types of error and describe the accounting procedures that apply in these circumstances.

The accounting procedures for these are conducted in branch and, wherever a particular process is necessary, it has been described above.

- 7.11. We are aware that if the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, Post Office will absorb this loss and not pass it on to the Subpostmaster. Please provide monthly totals showing the aggregate of all such losses in the years 1999 - 2013, describing how much of that loss was absorbed by Post Office and how much was passed on to Subpostmasters.

Post Office has previously explained (via Spot Review 12) to Second Sight that lost cheques cannot be the cause of loss to a branch unless it can be shown that the branch is at fault.

Further enquiries have been made into possible contextual data on this topic. Post Office does not have data readily available regarding what, if any, "missing cheque" losses would have been passed to Subpostmasters. As noted previously, compiling the data sought by Second Sight would be a disproportionate exercise given that Second Sight accepts that in principle this issue could not create a loss to a branch.

nevertheless, Post Office has conducted further analysis to specifically review the last 4 months of cheques submitted by branches. In that period, branches have taken 1,850,204. 452 cases arose of missing cheques (0.02% of the total processed). Further investigations and action by FSC resulted in 35 Transaction Corrections being issued to branches (0.0002%).

- 7.12. We are aware that some Subpostmasters routinely accept high-value cheques from customers that are in excess of the monetary limits set by Post Office. Please describe the procedures that were followed prior to determining these limits and state the accounting treatment of losses that occur in these circumstances.

Products may have limits (e.g. savings may only be up to certain values); it is not the cheque that is limited. There is no high value cheque limit set by Post Office.

- 7.13. We are aware that processing or technical failures can occasionally give rise to 'one-sided' transactions. We are also aware that Post Office has stated that 'in any event a branch will never be liable for an error caused by a 'one-sided' transaction'.

This is a statement with no question to answer. But the statement that a branch will never be liable for what Second Sight describes as a 'one-sided transaction' is correct.

- 7.14. Please describe the controls and processes that detect one-sided transactions in circumstances such as when a customer withdraws funds from an account at the branch counter but, although he has received the cash, the account never gets debited.

This question has already been addressed by a paper appended at Annex 11 which has already been supplied to Second Sight.

Nevertheless, "One sided transaction" implies incomplete double entry. We would be grateful if Second Sight would cease the inappropriate use of the phrase "One sided transactions".

What the question actually asks about is completeness of record keeping.

If the transaction interruption occurs during the Horizon accounting process, it would be subject to recovery processes, referred to earlier and previously shared with Second Sight.

If the interruption is beyond the branch, the branch accounts are not affected. How banks would then detect their own failure to debit their customer's accounts is a matter of their internal process. From a Post Office point of view, the withdrawals recorded in branch would lead to debits in a central vendor account which Post Office would in turn clear down by payments received from the bank. If the bank had not debited their customer's account then that would likely manifest itself in them not paying Post Office centrally and Post Office would challenge them with evidence of the original transactional record. This is not a situation that would lead to a discrepancy for a Subpostmaster.

**8. Transaction anomalies associated with Stamps, Postage Labels, Phone Cards or Premium Bonds**

- 8.1. We are aware that occasionally postage labels are purchased by customers, but the printer fails to print correctly. Please describe the procedure whereby the Subpostmaster can recover the cost of the missing label in circumstances where the missing label has not been processed as a 'reject'.

After printing, Horizon explicitly asks the clerk "has this label printed correctly Y/N".

If the label has not printed correctly then the clerk confirms "no" and another label is printed.

Post Office is aware of situations of damage in the printing process and there is a process to "spoil" them so that the branch is not disadvantaged. There is a clear process in Horizon and the branch is required to retain the spoiled label. This is appended at Annex 12.

To be able to claim a label as spoiled, the branch is required to produce to Post Office the spoiled label as evidence.



**9. Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation**

- 9.1. We are aware that occasionally branch Touchscreens get "out of alignment" and that in these circumstances touching one icon generates a system response associated with another icon. Please provide full details of the controls and procedures in place that detect or prevent this type of problem.

Please refer to the answer provided to 7.9b

**10. Failure to follow correct procedures or mis-advice by POL's Helpline**

- 10.1. A number of applicants have reported that Helpline staff have said "don't worry, the problem will sort itself out".

This is a statement with no question to answer.

- 10.2. Please provide full details of the actions taken to investigate these allegations and confirm whether or not Helpline staff have been instructed to never say "don't worry, the problem will sort itself out", or similar words.

Where such allegations have been made by Applicants to the Complaint and Mediation Scheme Post Office has fully investigated the NBSC calls logs as part of its thorough investigation and reported its findings in the Post Office Investigation Report.

In relation to certain transactions, Post Office has in place processes and controls to detect particular errors by branch staff. Where an error is detected, a transaction correction may be sent to a branch to correct a mistake. In these circumstances, it may well be correct for NBSC to advise a branch to await receipt of a transaction correction amongst other steps. Post Office understands that it is this scenario that is being referred to by Second Sight and considers that this advice may be appropriate in the right circumstances.

- 10.3. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to those situations where customers leave parcels and come back some days later to settle their accounts. Specifically, what is Post Office's position in regard to the credit risk that Subpostmasters take, and the potentially 'false accounting' issues that those Subpostmasters risk, when they routinely allow customers (such as eBay Sellers) to drop off large quantities of parcels that are then dispatched by settling the labels to 'Fast Cash' (even though no cash has at that point been received from the customer) and then reversing all those Fast Cash payments to cheque when the customer later pays by cheque?

Post Office does not have a policy of providing credit to customers. Where Subpostmasters have done so, they have contravened Post Office operating instructions which state that at the point the transaction is completed the appropriate method of payment should be taken from the customer.

Therefore, the risk would be the Subpostmaster's in respect of an unsettled payment from the customer.

**11. Training and Support issues including Helpline and Audit**

Another issue running through the applications to the Mediation Scheme was the alleged poor quality of training and support provided by Post Office to Subpostmasters.

Second Sight's questions on this topic are dealt with below however Post Office considers that issue relating to training and support are likely to be case specific and does not see how this can be a thematic issue suitable for Second Sight's Part 2 Report.

11.1. Please provide us with full details as to how the following issues are dealt with during the handover to a new Subpostmaster:

- a) Ensuring that the new Subpostmaster has manager/supervisor-level access rights to the branch's Horizon system;

The Field Support (FSA) team involved in the branch opening process would create the User ID for the incoming Postmaster at the correct (maximum) level of manager. The audit team would:

- Delete any obsolete users from the system and ensure that the incoming Postmaster and any new staff members are added to Horizon in the correct format.
- Check the Horizon User ID's against the list of Registered Assistants.
- Any staff working in the branch that are not registered with HR should be reported via the Anomalies Report that the FSA completes to notify HR so that they can follow up with the Postmaster.
- Inform the Postmaster of the correct process for registering assistants with HR.
- Set new alarm codes once the transfer is completed under FSA supervision.
- Add new user(s) to Horizon ensuring that all staff are also listed on the reporting form to HR.

- b) That every employee has a unique User ID and password;

Please refer to answer provided to 11.1a.

- c) Ensuring that every till or employee and ATM is associated with a separate stock unit; and

Some branches operate with just one "shared" stock unit as they don't feel the need to have individual units (this depends on the branch's preference).

ATM's are required to have a dedicated stock unit. This is checked on branch audit. If the branch does not have a separate ATM stock, one is created (instructions on how to do this can be found in the Additional Horizon Procedures on EASE) which stands for 'Engaging and Supporting Effectively' and is the library of tools, official forms and processes from which the Field Team take all of their instructions in the deployment of all types of Field Support Activity.

- d) Ensuring that all branch employees are approved by Post Office;

Please refer to answer provided to 11.1a.

11.2. We are aware that, when attempting to correct errors made at the counter, and to deal with incoming TCs, some Subpostmasters make matters worse by making further mistakes at that point. Please describe the controls and procedures in place to detect and prevent or correct these types of commonly made error.

“Correcting errors” and “dealing with incoming TCs” are different things. A branch may be seeking to correct an error it has spotted itself well before a TC becomes necessary.

When correcting errors, some Subpostmasters do indeed sometimes make further errors. The controls and process are:

- Through their own vigilance in concluding a transaction they should spot issues;
- Through daily cash declarations and other routine supervision of their branch they should spot errors;
- Having spotted an issue they can use local transaction logs to review and reflect on transactions; and
- If they cannot determine the root cause themselves then they can call the Helpline who in turn may involve FSC. However, for many errors made at the counter by branch staff, there may be limits on what investigative support Post Office is able to provide because it is not aware of what is physically happening in each branch – only a Subpostmaster knows this.

11.3. Please provide full details of the following:

- a) Any surveys or other quality control procedures in order to measure user satisfaction with regard to the NBSC and HSD Helplines;

NBSC performance is measured on the time advisors take to answer the phone, referred to as a “Grade of Service”. The target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (i.e. where the caller hangs up before reaching an advisor). For complaints, NBSC’s target is to resolve 95% of complaints within 10 working days.

Further, the Subpostmaster engagement survey also measures satisfaction levels of users of the NBSC – the most recent of which showed that 83% of respondents felt that the support from NBSC was effective.

- b) The extent to which that advice provided by the NBSC and HSD Helplines is monitored and quality checked;

All advisors are coached through a robust quality process called ‘rewarding skills’. This involves the team leader listening into a selection of calls and providing feedback on call handling, customer service and quality of the response.

- c) The extent to which the written reports (call logs) of the NBSC and HSD Helplines are routinely compared to the actual calls and quality checked;

As part of the quality monitoring as outlined in 11.3b, the actual call log is checked to ensure that it has been categorised correctly and relevant details of the call are logged. There are no written reports as all calls are logged onto a robust call logging system.

- d) Any surveys or quality control techniques used to assess the adequacy of training provided to Subpostmasters; and

Post Office uses the independent external organisation Kendata to collect feedback from all customers of Field Team Activity, including Training, Audit and Intervention activities.

Following these support activities which are supplied by the Field Support Advisors (FSA), across all branch segments in the Network, the FSA will ask the Subpostmaster, Operator in Charge, and all training delegates, if they will complete and return a double sided form to describe their experience in terms of the FSA's performance and the effectiveness of the activity itself.

A form is handed out at every activity as described below:

- At all Audits including Branch Closure Audits;
- Classroom and on-site training (BAU & NT);
- Post Transfer Visits;
- Interventions visits - including Non-Conformance Visits (NCV's) e.g. Mail Segregation / Dangerous Goods / other Non – Compliance/ standards activities.

Exceptions include:

- An audit resulting in Suspension;
- Special Request audits – where fraud is suspected.

#### Performance Management

All feedback is submitted directly to Kendata, then summarised and sent to the line managers of the Field Team and the individual FSA. The reports are tailored to the different levels of line management on terms of detail ranging from full detail including comments at the FSA and FTL level, up to an overview of performance by teams and activity at Senior Manager level.

Each Field Team Leader (FTL), the first line managers of the FSA's, will discuss the performance of the FSA's at their appraisals unless there are any concerns raised, in which case this is dealt with as soon as the reports are received. If further information is needed to hold an effective discussion, the FTL will call and speak to the person providing the feedback, wherever possible, to further understand the issues.

The FSA performance, and the FTL's team performance is discussed monthly as part of their appraisal with the Regional Manager.

The feedback received on the activity itself is used alongside other information

gathered by the Lead Team to drive and inform change and improvements to the Field Team support offer.

Examples of the forms used are appended at Annexes 13, 14 and 15.

- e) Any surveys or quality control techniques used to assess the adequacy of training provided to branch staff other than Subpostmasters.

This is a duplicate of question 11.3d.

#### 11.4. Process issues at the end of each Trading Period

This question is not understood.

#### 11.5. Please provide full details as to how and when Post Office notifies Subpostmasters that they may extend a Trading Period into what should be the next Trading Period.

Branch trading dates are communicated to branches annually through Branch Focus (the branch newsletter) and are also updated on Horizon online help. If a revision was needed during the year the same process would be followed.

If a branch wished to request permission to extend their trading period they should contact NBSC. This would only be permitted in highly exceptional circumstances. NBSC would contact the FSC Relationship Manager who may consult with the Network Contract Manager. The formal response could come from any of the three parties, depending on the circumstances.

#### 11.6. Please provide full details as to the options available to any Subpostmaster who, at the end of a Trading Period, discovered a shortfall that was:

- a) Larger than they could 'centrally settle'; or

The upper limit on being able to 'centrally settle' is £999,999.99. Should such an incident occur, Post Office would manage by exception.

- b) Only discovered after the Helpline had closed for the evening.

They could delay closing the Trading Period until the next morning – they could then contact NBSC before opening the following day. However, well run branches would be unlikely to have last minute surprises like that, because it would have become evident during other daily cash declaration processes and checks during the preceding weeks. Last minute surprises usually reflect poor planning / management by a Subpostmaster.

#### 11.7. Bearing in mind that some TCs would be issued many months after the original shortfall, what options are available to Subpostmasters to 'fund' shortfalls that exceed their 'central settlement' limit?

Please refer to the answer provided to Q 11.6a.



- 11.8. Please provide full details as to the consequences of introducing 'Monthly Trading' periods. For example, did Post Office notice an increase in the number of branches suffering discrepancies that led to contract termination?

Having made further enquiries on this question, Post Office confirms that it does not hold this data.

- 11.9. We understand that when Post Office moved to Monthly Trading, Branch Suspense Accounts thereafter had to be closed out to zero at the end of each Trading Period. Please provide full details of options available to a Subpostmaster dealing with the investigation of a loss just before the end of a Trading Period.

This is answered in Section 9 of Second Sight's Part 1 Briefing.

**12. The contract between the Post Office and Subpostmasters**

Some Applicants have made complaints in relation to the contract between them and Post Office. Second Sight's questions arising out of these complaints are answered below.

12.1. Please provide full details of the following:

- a) Any insurance coverage Post Office has ever offered to arrange for its Subpostmasters;

Though this question is out of scope, it is a function performed by the National Federation of Subpostmasters. Discounted insurance rates have been offered to Subpostmasters by the National Federation of Subpostmasters and it is their decision whether or not they opt in.

- b) The measures Post Office takes in order to reduce the risk that incoming Subpostmasters, who take over an existing branch and its staff, may be inheriting employees who have been found to be, or are suspected of having been, incompetent or dishonest. In this context, was there, or is there now, any competency and integrity verification, performance appraisal, or formal disciplinary/warning process whereby outgoing Subpostmasters and Post Office's own Line Managers could warn incoming Subpostmasters where questions had been raised?

Staff members/Subpostmasters' assistants are employees of the Subpostmaster and not Post Office Ltd. It is the Subpostmaster who performance manages the staff members including any disciplinary action as appropriate. It is also a Subpostmaster who needs to assure themselves that any assistants are suitable for the role by conducting interviews, seeking references, etc.

When a Subpostmaster recruits a new member of staff there are a number of checks that have to be undertaken (e.g. right to work in the UK, proof of identity and proof of address along with their five year work history).

In addition, the individual must be registered with Post Office Ltd so the security checks can be undertaken (e.g. criminal record check). There is an annual check of all assistants to ensure they have been cleared through the pre-employment checking system. A recruitment file has to be established and maintained holding the basic paperwork for each assistant (please see section 15 of the Subpostmaster contract for services, paragraph 4, for further information).

Under their contract for services with Post Office, every Subpostmaster must establish, maintain and adhere to a formal disciplinary policy in respect of any assistants who fail to comply with the Subpostmaster obligations as detailed in the contract. The disciplinary policy must include the content as defined in the contract and records must be retained (please see Section 15, paragraph 9, of the Subpostmaster contract for services paragraph 9 for further information).

- c) The measures Post Office takes in order to satisfy itself that potential Subpostmasters have the necessary skills to meet the challenging requirement of being a Subpostmaster?

This is undertaken through:

- a) The provision of a business plan to support an individual's application; and
- b) A competency based interview of the individual which is undertaken by trained assessors.

At interview, applicants are assessed on their ability to explain their business proposition, answer any questions raised and provide examples to demonstrate their understanding of what is required across a number of competency areas. The business plan is also assessed financially by the Finance team.

- d) How Post Office ensures that Subpostmasters have a copy of the Contract no later than the day that they commence their position.

The contract document is issued with the offer of appointment when an individual is advised they have been successful at interview. This has been the process since 2001.

12.2. We understand that many Subpostmasters have only signed the one-page 'Acknowledgement of Appointment' Letter and not necessarily been provided with a copy of the Contract. Please describe the basis upon which Post Office considers the Contract enforceable in these circumstances?

Post Office has stated on a number of occasions that matters relating to the Subpostmaster contract are out of scope and that, as this is a legal question, it is outside of Second Sight's area of expertise.

However, in the interests of providing Second Sight with as much information as possible, Post Office's position is that this question concerns the formation and enforceability of contracts, the response to which will be informed by the particular circumstances of each individual contract and their application to the relevant legal principles. Though it is not therefore capable of giving rise to a general response it is worth noting that the "Acknowledgment of Appointment" document, whilst not the main contract itself, states that the Subpostmaster has been given and has accepted the terms of the standard Subpostmaster's contract.

12.3. We understand that Post Office considers the terms of the Contract to be broadly similar to those used in franchising arrangements across the UK. Please provide full details evidencing this proposition?

A franchise agreement is a private contract between two (or more) parties recording the basis on which they agree to do business in their particular circumstances. The SPMR Contract is similar in that it records the basis on which Post Office and Subpostmasters do business.

Enclosed at Annex 17 is an extract from the Encyclopaedia of Forms and Precedents. This is a leading legal text providing precedent agreements for various situations. The extract is Form 18 from Vol 16(4) and is a precedent for a "Non-Exclusive franchise agreement for a retail business".

As can be seen from the Precedent, the terms of a standardised franchising arrangement are broadly similar to the terms of the standard Subpostmaster Contract. There are obviously some differences between the two as the Subpostmaster Contract is tailored to Post Office's business whereas the Precedent is generic however the core principles are largely the same - for example (number references are to clauses in the Precedent):

- **Premises** (4 and 9): Both Franchisee and SPMR are both responsible for leasing the premises and ensuring that it is appropriate to operate the business.
- **Setup costs** (10.1.2): The Franchisee must pay for the initial fit out and equipment costs if provided by the Franchisor. Post Office also requires this payment in some, but more limited, circumstances.
- **Training:** Franchisor / Post Office to provide initial training to the franchisee / SPMR (5.1.1) and the Franchisee/ SPMR is required to train their own staff (9.2.11)
- **Employees** (9.3.5): The Franchisee / Subpostmaster is responsible for employing suitable staff.
- **Equipment / Software:** The Franchisee / Subpostmaster is required to record all sales and other financial information using the equipment and software provided by the Franchisor (9.2.23 and 10.9).

- **Telephone lines** (9.2.22): The Franchisee / Subpostmaster must provide the communications line for the EPOS systems and credit card machines.
- **Advice** (6.2): At the Franchisor's discretion, it may provide advice to a Franchisee on how to operate the Franchisee's business – this reflects Post Office's approach to providing advice through its helplines.
- **Problem support** (6.3): Any support provided by the Franchisor to the Franchisee to help resolve problems will be at the Franchisee's cost. There is a slight difference here in that although Post Office's additional support is voluntary, it is provided at nil cost to Subpostmasters.
- **Changes in business** (9.2.2): Both Franchisor and Post Office can change its business model and products for sale.
- **Information / Accounts** (9.3.8 and 10.9) – the Franchisee is responsible for the accuracy of all reports, information and accounts.
- **Audit** (9.2.13 / 13): Both Franchisor and Post Office have a right, but not a requirement, to audit the Franchisee / Subpostmaster. Audit is described in the Precedent (13.1) as an inspection of the business and books – not a full accountancy audit. This is in line with Post Office's use of the word "audit".
- **Responsibility for accounting errors** (13.2) – Franchisee must "*promptly rectify*" any accounting error – again this is very similar to the wording the SPMR Contract.
- **Liability**: The Franchisee is required to indemnify the Franchisor for any loss resulting (i) a failure to follow the business operating practices (9.3.7.3) or (ii) "*any deliberate or negligent act, error or omissions by you or your employees*" (9.3.7.4) - this is almost identical to the SPMR Contract wording.

In any event, the terms of the Subpostmaster Contract are the terms on which Applicants agreed to do business with Post Office. It is the relationship described in those terms that must be applied when assessing Post Office's and a Subpostmaster's actions. It is not open to anyone to look to retrospectively impose new duties on Post Office that did not previously exist. For this reason, Post Office maintains that challenges to the Subpostmaster Contract are outside the scope of the Scheme, which was to focus on Horizon and associated issues. Such an evaluation is also beyond Second Sight's expertise as they are accountants and not lawyers.

12.4. We understand that Post Office does not recommend that its would-be Subpostmasters take legal advice (in regard to the Standard Contract) prior to entering into that contract. This appears to be contrary to best practice procedures. For example, the British Franchise Association recommends that independent legal advice should always be taken prior to signing a franchise agreement. Please provide full details as to why Post Office does not comply with this best practice recommendation?

It is open to all Subpostmasters to seek legal advice at any time and Post Office does not block this in any way.

The reference to the BFA standards is not applicable here. The BFA recommendation is directed to franchisees (in a similar position to Subpostmasters). The BFA does not make a recommendation franchisors (in a similar position to Post Office) to require on legal advice being taken by franchisees.

12.5. Several Applicants have reported their concerns that Post Office employees acted inappropriately in connection with the closure of transfer of their branches. The inference of the majority of the remarks made is that certain Post Office employees acted unprofessionally, either by leaking confidential information (that was damaging to the Applicants) to potential buyers and/or by thwarting their efforts to sell a viable branch until it was no longer viable (and consequently of lower value).

These are very serious, but wholly unsubstantiated allegations that Post Office denies and has not seen evidence or been provided with evidence to support these allegations. Further, it was as agreed at the Working Group meeting on 15 January that this request for information is too wide.

12.6. The further inference is that certain Post Office employees seemed to be in some way motivated or incentivised to find reasons to close branches, that were already destined to close under the various closure and re-invention programmes, without cost to Post Office.

See answer provided to 12.5.

12.7. Please provide full details of the work performed to refute these 'bad faith' allegations.

See answer provided to 12.5.

12.8. Please provide full details of Post Office's policy and procedures in respect of writing off amounts due from Subpostmasters. Please also provide similar information relating to Crown Offices. Please also describe the write off authorisation limits applicable to different grades of staff.

Subpostmaster write off levels are documented. Please see a copy of the write-off process for agency branches appended at Annex 16.

Losses from Crown Offices form part of the individual Crown Office's P&L and ultimately Post Office's P&L.

Though reports have been issued to Crown RSMs on levels of losses, it is not a case of authority levels. Tolerance is set at individual level. As a general rule an 'escalation' investigation is initiated after three losses of in excess of £30, although there are variations to this depending on local and individual circumstances. Branch Managers also implement a series of surprise checks on stock units and separately carry out supervisory misbalance checks when a stock unit is showing £30 or more loss on two consecutive daily cash declarations.



Discrepancies can also be identified at the end of each trading period where the Branch Manager undertakes a full cash and stock reconciliation. An 'escalation' investigation can be initiated as a result of errors found as part of that process.

Crown Offices discrepancies are rectified using the same Transaction Correction (TC) process as is used in Subpostoffices. TCs are sent to the Branch Manager who is responsible for accepting or querying the TCs based on the evidence in branch. This process could also identify discrepancies which could result in initiation of an 'escalation' investigation.

Depending on the circumstances, actions against an individual member of staff in cases of persistent negligence or wrongdoing can include disciplinary action, dismissal and prosecution.

- 12.9. Please provide details of Post Office's Policy and Standard Operating Procedures in regard to helping Subpostmasters recover shortfalls that they have made good as a result of proven theft by branch employees.

Recovery of losses caused by theft by branch assistants is a matter for Subpostmasters as the assistants are their employees. Post Office may help, as a matter of goodwill, but there is no policy in this regard.

### 13. Post Office Investigations Function

- 13.1. Please provide full details of any criticism of Post Office's (or Royal Mail's) investigative actions or of its employees in any Court judgement or ruling.

This question is very broad in scope - it could be interpreted to apply to the whole of Post Office's business and not just those issues under review in the Scheme. Through further discussions with Second Sight, Post Office now understands that Second Sight is looking for criticisms of Post Office's security investigation team and not criticisms of other parts of Post Office's business nor its legal / prosecutions practices.

Although this greater clarity is welcomed, the question still remains premised on an assumption that there is an issue with Post Office's investigation function that would give rise to criticism. To date, no such issue has been identified by Second Sight. This enquiry also needs to be placed in context. Post Office, like all large organisations, is regularly involved in legal processes. It also only separated from the Royal Mail Group in April 2012, prior to which investigation functions were shared across both businesses. There is therefore no single source for the information that Second Sight is seeking.

Against this background, those individuals currently responsible for the security team and legal proceedings at Post Office have confirmed that they are not personally aware of any criticism in a written Court judgment or ruling of the nature described above. For the sake of clarity, no review of historic judgments involving Post Office has been undertaken in reaching these views – such judgments are in any event a matter of public record and could therefore be reviewed by Second Sight.

- 13.2. Please provide a schedule showing the number of requests from Subpostmasters for assistance in investigating discrepancies their branch's accounts for each of the years 1999 – 2013. Please also show for each year the number of requests when assistance was provided.

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of calls to NBSC and HSD from a network of almost 12,000 branches. This request is clearly disproportionate.

- 13.3. Please provide a schedule showing the number of investigations into branch surpluses or shortfalls for each of the years 1999 – 2013 clearly setting out the number of investigations in each category.

Post Office does not hold this information. To undertake this exercise would require POL to review 14 years of data from a network of almost 12,000 branches. This request is clearly disproportionate.

- 13.4. In relation to requests for assistance, we understand that, where several instances of the same problem occurs, a 'problem record' is created and the root cause of the issue is identified and fixed (i.e. to avoid further instances). Please provide a schedule of all significant 'problem records' and all process and software modifications (excluding "minor amendments to processes") that have been implemented, in the years 1999 - 2013, that were designed to reduce the frequency and impact of "errors made at the counter".

This is a disproportionately wide request for general information, without identification of a specific issue raised by Applicants. If Second Sight is able to identify, with supporting materials, specific cases where Applicants to the Scheme have been affected by these issues, Post Office will of course reconsider this request.

- 13.5. Please provide full details and results of any user satisfaction surveys Post Office has conducted into the Horizon system.

Post Office constantly receives feedback on Horizon from its tens of thousands of users through a variety of sources.

The primary sources are the NBSC, Horizon Service Desk, Branch User Forum and NFSP. Feedback is also delivered through a variety of BAU processes, for example, from contact with the Finance Service Centre, and through discussion in the field with Contract Advisors and Field Support Agents.

That feedback is then implemented through regular system reviews and upgrades implemented by both POL and Fujitsu, and in product development (e.g. to streamline the processes for transacting a new product).

- 13.6. We understand that many of the unexplained branch losses are attributed to "errors made at the counter". Please provide a schedule showing the number and value of unexplained branch losses or "errors made at the counter" for each month for the period 2008 to 2013. Please also provide similar information relating to Crown Branches including the amounts written off each month.

Post Office does not hold this information

- 13.7. Please provide a schedule showing the number and value of ENs and TCs issued to branches for each of the years 1999 to 2013 (we need to see separate volumes and values for Credits and Invoices).

Post Office has readily available data for 2012/13 and 2013/14 – see below. Compiling information for previous years would require considerable data analysis.

Post Office does not know which particular issue raised by Applicants this data is seeking to address. If Second Sight requires more data to consider individual applicant's cases, we should be grateful for a discussion of the purposes behind this enquiry so we may determine what data may be available.

Year	Debit TC Volume	Credit TC Volume	Debit TC Value	Credit TC Value
2012 / 13 (approx.)	74,748	47,939	£31.4m	£33.7m
2013 / 14	59,149	44,509	£27.6m	£28.0m

- 13.8. Please provide full details of changes to the Horizon system and/or to its Standard Operating Procedures that were designed to reduce the risk, incidence and severity of errors and fraud, as a direct result of investigations carried out into unexplained branch shortfalls, or in response to problems, vulnerabilities and susceptibility to errors or fraud, for the years 1999 – 2013.

Second Sight has clarified that it is not seeking an exhaustive list of all the changes described above; rather it is seeking a summary of the key changes over this period and brief description of each change. This information is provided below.

- **MoneyGram Automation** – Quotes and financials are now provided directly

into Horizon rather than the clerk telephoning and transcribing the rate / amounts.

- **Broadband Sign Up** – Addressing the issue of “slamming” (an illegal telecommunications practice, in which a subscriber’s telephone service is changed without their knowledge or consent) accusations by onscreen “Read to customer...” messages, and key terms being printed on the signed receipt.
- **Bureau Pre-Order** – Order lifecycle is now managed through Horizon to ensure payment is taken at the point of order, and issuance is to the correct customer.
- **Care Quality Commission / Disclosure and Barring Service (DBS) Identity Checking** – There is now automated customer identity verification to ensure key data attribute checks are performed and the correct fee taken.
- **Motor Vehicle Licenses (MVL)** – Stock lifecycle is now automated to track all MVL stock from the point it leaves the warehouse to issuance or destruction.
- **Post Office Card Account (POCA) Card Issuance** – Automation is now in place in terms of the issuance of new and replacement card stock to customers.
- **Regulatory Compliance Training** – The model has been simplified to allow tests to be rolled out at reduced cost with full auditability based on Horizon user log on.
- **Rod Fishing Licence** – The licence issuance process is now automated for both short term and annual licences; removing the paper licence from branch.
- **Camelot Cheques** – The cheque issuance process is now automated for large prizes.
- **Stock Ordering** – The creation of an online ordering process through Horizon has removed the need to fax / post order cards; product codes and allowable order volumes are now automated to ensure branches received the correct stock.
- **Travel Insurance** – Price look up for policies is now automated, these were previously keyed manually from the brochure look up tables.
- **Horizon Recovery** – Online transactions with 3rd parties (e.g. MoneyGram) are recovered in the event of, for example, a temporary loss of power or telecommunications to ensure synchronisation of branch, PO datacentre, and 3rd party systems. The situation before the change was that the branch had to remember what transaction they were in when the power/comms went down, and then contact the service provider directly to find out if the transaction had completed.
- **Bureau 2nd receipt** – The production of a duplicate session receipt (necessary for Bank security checks) is now automated, previously the clerk had to remember to print it manually.
- **Lottery TA (PING)** – Lottery sales figures are now incorporated into the

Transaction Acknowledgement (PING) process. The branch confirms the system reported figure for the previous days sales when logging in the next morning.

- **Spoilt Postage Labels** – There is a revised process for spoilt postage labels to ensure labels are correctly accounted for and VAT automatically reversed correctly, where applicable.
- **Display of long addresses in postcode lookup** – Screen display has been revised to allow long postal addresses to be displayed on two lines. This has resolved an issue of postcodes not appearing.
- **(pending) Cheque Rem out** – There are plans in place to implement a revised process to bring all elements of the cheque Rem out and despatch onto a single screen, with automation of cheque totals entry, and printing of despatch slip. (expected May 2015)

#### 14. Surpluses

- 14.1. Please provide full details as to how Post Office tracks surpluses and shortfalls at the end of Trading Periods at both branch level and in aggregate.

This data is not collated by Post Office but at an individual branch level it can usually be reconstructed from the branch's Horizon logs so long as the branch has accurately conducted its end of branch trading processes.

- 14.2. Is it possible that an error which has generated a surplus in one branch can result in a shortfall in another branch? Please provide full details as to how this may occur.

No (except for in connected Core and Outreach branches where remittances of cash between the branches are not correctly recorded by branch staff).



## 15. Suspense Accounts

Post Office has already addressed Second Sight's questions on its Suspense Accounts in its Suspense Accounts paper. This paper demonstrated that so long as a branch follows Post Office's standard operating practices, it cannot suffer a loss due to the operation of a Suspense Account.

15.1. Please provide full details of all Suspense Accounts held by Post Office. Please also provide a schedule, for each year end between 2008 and 2013, showing the amounts transferred to Post Office's Profit and Loss Account (both debits and credits) for each Suspense Account held.

15.2. Please also provide a schedule, for each year end between 2008 and 2013, showing the balance held on each Suspense Account (both credits and debits).

15.3. Please provide an electronic report in CSV format or similar showing for the last 3 years the following information for every item posted to any Suspense Account:

- a) Full transaction details;
- b) Originator's reference;
- c) Any comments or notes associated with the transaction; and
- d) Full account details of the account the transaction relates to or is being transferred to.

Post Office provided a paper (included at Annex 18) prior to a meeting between Second Sight and Post Office's CFO. The CFO has subsequently written again with more information and a further meeting is due to be arranged in the near future.

15.4. Please describe the controls used to detect errors in Post Office client reports that if not corrected could give rise to an incorrect TA or TC being issued.

Where Post Office receives client reports, these are part of matching accounts, where Horizon data is matched to the client data. Therefore, if the client report was wrong, it should lead to a difference compared to the Branch data. Post Office would then investigate that difference. If a wrong approach were made to a branch, the branch themselves could, in turn, challenge it.