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**ENGAGEMENT LETTER DATED 9<sup>TH</sup> APRIL 2014  
CHANGE ORDER NUMBER 02 (VERSION 1)**

11 March 2016

Post Office Limited  
Finsbury Dials  
20 Finsbury Street  
EC2Y 9AQ

For the attention of Jane MacLeod

Dear Sirs

This Change Order (including any appendices, schedules, and/or attachments), records agreed changes to the Contract between Deloitte LLP (“Deloitte” or “we”) and Post Office Limited (“POL” or “you”) dated 9<sup>th</sup> April 2014, as amended by prior agreed Change Order(s) or amendments thereto. This Change Order constitutes the entire understanding and agreement between the Client and Deloitte with respect to the changes set out in this document, supersedes all prior oral and written communications with respect to such changes (including, but not limited to Change Requests), and may only be amended in writing, signed by authorised representatives of both parties.

The section(s) of the Engagement Letter set forth below and Change Order Number 01 (Version 2) are hereby amended, effective as of 11 March 2016, by the following text:

**1 Project scope, objectives and background**

**Background**

POL continues to respond to allegations that the “Horizon” IT system used to record transactions in POL branches is defective and the processes associated with it are inadequate (the “Allegations”). As part of this activity, POL’s Chairman Tim Parker instructed Jonathan Swift QC to review and advise him on the work POL had already taken in the 2010-2015 period (including the work undertaken by Deloitte pursuant to the Engagement Letter and Change Order Number 01 (Version 2)), and if there were gaps in that work, whether further action can reasonably now be taken to respond to the Allegations.

Deloitte is now asked to undertake the work described in this Change Order Number 02 in order to support and inform the advice that Jonathan Swift QC is providing to POL’s Chairman, and to assist POL respond to the Allegations which continue to be the subject of threatened litigation.

**Scope and Objective**

This first phase of work will constitute ‘Phase 0’, the ‘Discovery Phase’, whereby Deloitte will perform initial enquiries and investigations across four scope areas named by POL and identify procedures which POL may wish to undertake for each scope area.

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The objective of the 'Discovery Phase' is to ratify the procedures into an agreed statement of work which can be undertaken in Phase 1, the 'Delivery Phase'.

This Change Order (including its commercial terms) relates to the 'Discovery Phase' / Phase 0 only. The Delivery Phase / Phase 1 will be the subject of a separate engagement letter or further Change Order as is necessary.

## 2 Our Services and responsibilities

### Timetable

We are planning to operate in accordance to the following timetable:

Phase	Activity	Planned Completion Time
0. Discovery Phase	Initial engagement activities such as review of documentation, discussions with Fujitsu and POL's financial processing team, and high level data gathering to allow the core procedures to be identified and defined.	18 <sup>th</sup> March 2016
1. Delivery Phase	Execute the core procedures (and selected optional procedures) against each of the four scope areas.	13 <sup>th</sup> May 2016

### Scope Areas

The four "Scope Areas" specified by POL are:

Scope Area #	QC's Advice	Proposal
3	POL consider instructing a suitably qualified party to carry out an analysis of the relevant transaction logs for branches within the Scheme to confirm, insofar as possible, whether any bugs in the Horizon system are revealed by the dataset which caused discrepancies in the accounting position for any of those branches.	POL will instruct Deloitte to determine whether such an analysis/review is feasible, and if it is, to provide an indication of the cost, time and process that would be incurred.
4	POL instruct a suitably qualified party to carry out a full review of the use of Balancing Transactions throughout the lifetime of the Horizon system, insofar as possible, to independently confirm from Horizon system records the number and circumstance of their use.	POL will instruct Deloitte to determine whether such an analysis/review is feasible, and if it is, to provide an indication of the cost, time and process that would be incurred.

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Scope Area #	QC's Advice	Proposal
5	POL instruct a suitably qualified party to carry out a full review of the controls over the user and capability of authorised Fujitsu personnel to create, amend or delete baskets within a sealed audit store throughout the lifetime of the Horizon system, insofar as possible.	POL will instruct Deloitte to undertake this review, throughout the lifetime of the Horizon system, insofar as is possible.
8	POL commission forensic accountants to review the unmatched balances on POL's general suspense account to explain the relationship (or lack thereof) with branch discrepancies and the extent to which those balances can be attributed to and repaid to specific branches.	POL will commission Deloitte to review any unmatched balances on POL's Suspense Account.

**Approach**

In general the procedures required during the 'Discovery Phase' to achieve clarity on the further procedures required for each Scope Area will be:

- i) Review relevant documentation.
- ii) Interview relevant stakeholders.

There are a number of further procedures which could be performed for each Scope Area. We have already identified some likely core and optional procedures in each Scope Area, which would be likely to form the nucleus of the work proposed for the subsequent Phase 1. Not all of these procedures will necessarily be required, and Phase 0 will allow decisions to be made around which of these should be adopted.

In the table below we have set out a more granular presentation with the work steps for Phase 0 together with the likely further procedures against each Scope Area, divided into 'core' and 'optional' based upon our current expectations of the relative merits of such further procedures.

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Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
N/A – General procedures not linked to a specific Scope Area.	<ol style="list-style-type: none"> <li>1. Re-familiarisation with original Sparrow report.</li> <li>2. Re-familiarisation with Second Sight reports.</li> <li>3. Preliminary workshops/meetings in order to ascertain relevant individuals to perform further Phase 0 procedures.</li> <li>4. Obtain data and branch references for all cases at issue.</li> <li>5. Initial Fujitsu engagement (likely POL led with Deloitte support).</li> </ol>	
<p><b>Scope Area 3:</b> POL consider instructing a suitably qualified party to carry out an analysis of the relevant transaction logs for branches within the Scheme to confirm, insofar as possible, whether any bugs in the Horizon system are revealed by the dataset which caused discrepancies in the accounting position for any of those branches.</p>	<ol style="list-style-type: none"> <li>1. Review Fujitsu technical documents pertaining to transactions recording in Horizon (HNG-X and legacy Horizon if possible).</li> <li>2. Interview with relevant Fujitsu staff with understanding of the throughput of transactions from branch database to the Audit Store and intermediate locations, considering the internal integrity check Horizon performs by transaction.</li> <li>3. Obtain data dictionary or equivalent for relevant areas of the Horizon database and review.</li> <li>4. Review existing population of extracted data available and assess feasibility of further data analytics.</li> <li>5. Formulation of data analytics proposed approach and data request (if feasibility study is favourable).</li> </ol>	<p><i>Transaction Log Proposed Procedures:</i></p> <ol style="list-style-type: none"> <li>a) Obtain audit store extracts for one relevant branch for the time period available on the system and perform pilot data analytics.</li> </ol> <p><i>Additional Optional Transaction Log Procedures:</i></p> <ol style="list-style-type: none"> <li>b) Perform further data analytics on wider population based on success of pilot on one particular case.</li> <li>c) Perform controls review of relevant controls on transaction log procedures.</li> </ol>
<p><b>Scope Area 4:</b> POL instruct a suitably qualified party to carry out a full review of the use of Balancing Transactions throughout the lifetime of the Horizon system, insofar as possible, to independently confirm from Horizon system records the number and circumstance of their use.</p>	<ol style="list-style-type: none"> <li>1. Review existing Horizon documentation (HNG-X) around the operation of Balancing Transactions.</li> <li>2. Interview with relevant Fujitsu staff with understanding of Balancing Transactions to determine the history of their usage, and the controls over their operation.</li> <li>3. Interview with relevant Fujitsu staff in order to perform preliminary assessment over the feasibility to perform analytics procedures over the history of balancing transactions.</li> <li>4. Formulation of relevant controls population and test plan.</li> <li>5. Formulation of data analytics proposed approach and data request (if feasibility study is favourable).</li> </ol>	<p><i>Balancing Transaction Proposed Procedures:</i></p> <ol style="list-style-type: none"> <li>a) Perform site visit(s) to Fujitsu in Bracknell in order to walkthrough the operation of the controls over Balancing Transactions.</li> <li>b) Test identified controls around Balancing Transactions including the following: <ol style="list-style-type: none"> <li>a. Authorisation for balancing transactions.</li> <li>b. Controls over access to amend or delete the audit trail of Balancing Transactions usage.</li> <li>c. Logical access rights on the system in order to perform Balancing Transactions.</li> </ol> </li> <li>c) Perform analytics procedures over the usage of</li> </ol>

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Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
		<p>balancing transactions from identified logs.</p> <p><i>Additional Optional Balancing Transaction Procedures:</i></p> <ul style="list-style-type: none"> <li>a) Review existing legacy-Horizon documentation around the operation of Balancing Transactions.</li> <li>b) Catalogue and document identified controls around Balancing Transactions on the legacy version of Horizon.</li> </ul>
<p><b>Scope Area 5:</b> POL instruct a suitably qualified party to carry out a full review of the controls over the user and capability of authorised Fujitsu personnel to create, amend or delete baskets within a sealed audit store throughout the lifetime of the Horizon system, insofar as possible.</p>	<ol style="list-style-type: none"> <li>1. Review existing documentation around the operation and controls surrounding the Audit Store data.</li> <li>2. Conduct interviews with relevant Fujitsu stakeholders around controls and processes in relation to the creating, amending or deleting of Audit Store baskets by means other than in branches.</li> <li>3. Formulation of relevant controls population and test plan.</li> <li>4. Establish if baskets created, amended or deleted can be amended from the audit store.</li> <li>5. Understand the length of time audit store baskets remain available.</li> <li>6. Determine if baskets relevant to the branches at issue can be identified.</li> <li>7. Formulate whether such audit store baskets for post masters subject to the complaint could be identified.</li> </ol>	<p><i>Scope Area 5: Audit Store Proposed Procedures:</i></p> <ul style="list-style-type: none"> <li>a) Test Controls over access to create, amend or delete baskets within the Audit Store Environment.</li> <li>b) Use data processing to summarise the baskets affected by this capability for the branches at issue.</li> </ul> <p><i>Additional Optional Audit Store Procedures:</i></p> <ul style="list-style-type: none"> <li>a) Validate extraction process of data for investigation as a result of the allegations.</li> <li>b) Review controls around data extract from audit store and custody of that data once outside of Horizon.</li> <li>c) Review relevant 'environment' controls which would allow subversion of the 'specific' Audit Store controls.</li> </ul>
<p><b>Scope Area 8:</b> POL commission forensic accountants to review the unmatched balances on POL's general suspense account to explain the relationship (or lack thereof) with branch discrepancies and the extent to which those balances can be attributed to and repaid to</p>	<p>We understand that transactions in suspense accounts largely represent the end of a process that has sought to resolve the issues and not the beginning. As such we propose identifying an approach that considers how POL handle imbalances from the point they arise, through Suspense, and on to write-off.</p> <ol style="list-style-type: none"> <li>1. Review Second Sight report and obtain/renew understanding of the various complaints.</li> <li>2. Review Central Finance team's analysis as to the different classifications and main utilisations of the suspense</li> </ol>	<p><i>Scope Area 8: Suspense Account Proposed Procedures:</i></p> <ul style="list-style-type: none"> <li>a) Test the relevant controls.</li> <li>b) Perform procedures such as review of service desk platform or historical process documents, to assure that the suspense account process has remained relatively constant for the period under investigation.</li> <li>c) Review a sample of relevant transactions to support and compliment the controls work.</li> </ul> <p><i>Additional Optional Suspense Account Procedures:</i></p>

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Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
specific branches.	account. 3. Determine which suspense account classifications are more likely to be aligned with post master complaints. 4. Conduct interviews and review relevant documentation, together with process walkthroughs in order to understand the relevant suspense account processes. 5. Formulation of relevant controls population and test plan.	a) Review suspense account processes and controls for Suspense account areas deemed less relevant to complaint submission b) Perform analytics procedures over the current suspense account population of transactions in order to highlight items of interest.

\* **NOTE:** Whilst it is our intent to conduct the procedures listed within this column, as our understanding develops we may (under your direction) perform alternate or additional procedures, using the governance mechanisms described below to control that delivery.

\*\* **NOTE:** Suggested procedures only for illustrative purposes, and will be subject to revision as a result of the knowledge and direction gained from Phase 0. None of the procedures highlighted in this column are planned for delivery as part of Phase 0 and so are outside the scope defined by this change order.

*Private and Confidential - Subject to Legal Privilege***Governance for 'Phase 0'**

Whilst we have highlighted in the table above a number of procedures which we could perform in Phase 1, we believe a certain amount of flexibility in formulating the statement of work will result in the optimum result for POL. To ensure this flexibility whilst allowing sufficient oversight by POL we propose that weekly status meetings are held and used to discuss the direction of the work, and any deviance from the proposed procedures highlighted above.

**Deliverables**

Our deliverable for Phase 0 will be a statement of work setting out the proposed scope and approach to Phase 1.

**Usage of our Deliverables**

For the avoidance of doubt, our deliverables, are for the use and review of POL only, and are not permitted to be shared with any other third party without Deloitte's prior written consent.

**3 Client Responsibilities and project assumptions****Assumptions**

We have made the following assumptions in constructing the budget in this Change Note which, if not correct, could impact the scope, timing and potentially the cost of this engagement. They are:

1. Sufficient meetings can be obtained within Fujitsu during the course of planned fieldwork;
2. Sufficient meetings can be obtained within POL Finance teams during the course of planned fieldwork;
3. Access to relevant reports and data can be granted and facilitated during the course of planned fieldwork.

**4 Our Charges****Rate card**

We will conduct our services under the rate card previously used under Project Sparrow but discounted by 12.5% for both Phases 0 and 1, being:

Grade	Advisory Rate / hr
Partner	£551
Director	£473
Senior Manager	£376
Manager	£350
Senior Consultant	£271
Consultant	£162
Analyst	£127

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### Proposed Budget for Phase 0 - Discovery Phase

We envisage a senior team mix for this phase of the work as set out below:

Name	Grade	Rate	Days	Total
Andrew Whitton	Partner	£4,408	3	£13,224
Mark Westbrook	Senior Manager	£3,008	6	£18,048
Sam Bartlett	Senior Manager	£3,008	5	£15,040
Lewis Keating	Assistant Manager	£2,168	6	£13,008
<b>Total</b>			<b>20</b>	<b>£59,320</b>

### 5 Consequential changes to the Contract

Except as expressly modified herein, all other terms and conditions of the Contract remain unchanged. Please indicate your agreement to the terms of this Change Order by signing and returning to Deloitte the enclosed copy of this Change Order.

Yours faithfully,

**Andrew Whitton**  
Partner  
Deloitte LLP

Agreed by Post Office Limited:

Signed:

**Jane MacLeod**

For and on behalf of Post Office Limited:

Printed Name: JANE MacLeod

Position: General Counsel

Date: 14 March 2016