

Claim No. HQ16X01238

IN THE HIGH COURT OF JUSTICE
QUEEN'S BENCH DIVISION
IN GROUP LITIGATION BETWEEN:

ALAN BATES & OTHERS

Claimants

-v-

POST OFFICE LIMITED

Defendant

draft/ GENERIC DEFENCE

A3. Fujitsu

47. As to paragraph 20, Post Office has provided to the Claimants a copy of its contract with Fujitsu (“**the Fujitsu Contract**”). The Claimants have not identified any reasons for thinking that any other agreements between Post Office and Fujitsu are required for them properly to plead their generic claims. Nor have the Claimants identified any respects in which the redactions to the Fujitsu Contract have prejudiced their ability to plead their case on the relationship between Post Office and Fujitsu. The redactions were made in order to preserve commercially sensitive information and/or because the redacted content was irrelevant to the issues in this case. Save as aforesaid, paragraph 20 is admitted.

48. As to paragraph 21:

- (1) Depending on the specific branch and time in question, the telecommunication line from the branch to the internet may have been provided by Fujitsu or by the Subpostmaster. Save for this point of clarification, paragraph 21.1 is admitted.
- (2) Fujitsu was only responsible for the Post Office side of the interface between central data centres and clients. Further, some client equipment in branches transmitted data directly to those clients without that data going through Horizon or other systems for which Fujitsu was responsible. Save as aforesaid, paragraph 21.2 is admitted.
- (3) Paragraph 21.3 bundles together several different concepts and uses language that is open to different meanings. However:
 - (a) Fujitsu’s role included identifying and remedying coding errors and bugs in Horizon as pleaded in paragraph [XX] above.

- (b) To the extent that the phrase "correct apparent discrepancies in the data" is meant to mean that Fujitsu implemented fixes that edited or deleted specific items of transaction data, that is denied.
 - (c) It is denied that Fujitsu has implemented fixes that have affected the reliability of accounting balances, statements or reports.
 - (d) Save as aforesaid, if Post Office understands it correctly, the general thrust of paragraph 21.3 is denied.
- (4) As to paragraph 21.4, it is admitted that until 2014 Fujitsu provided a telephone advice service to Post Office in relation to technical problems with the Horizon system or equipment. This service was used by Post Office staff (such as staff working on the Helpline referred to in paragraph [XX] below), but sometimes Fujitsu staff would have direct contact with third parties such as Subpostmasters in order to obtain a better understanding of the problem on which it was asked to advise. From 17 June 2014, this service was provided by Atos.

Bugs, errors or defects in Horizon

49. As to paragraph 22:
- (1) If and to the extent that the Claimants wish to assert that any of the shortfalls for which they were held responsible were Horizon-generated shortfalls, it is for them to make that distinct allegation and seek to prove it. Post Office notes that they do not make the allegation in the GPoC. It further notes that, in paragraph 20 of their solicitors' letter to Post Office's solicitors dated 27 October 2016, the Claimants make it clear that they do not allege that there is a systematic flaw in Horizon or indeed any flaw which has caused any Claimant to be wrongly held responsible for any shortfall.
 - (2) It is denied that Post Office has unreasonably or otherwise failed to provide "obviously relevant disclosure" in relation to bugs, errors or defects in Horizon. There has been no order or application for disclosure and, in the premises set out above, there appears to be no basis for providing such disclosure.
50. Paragraph 23 is embarrassing for its lack of particularity, in that (amongst other things) it does not identify the errors, bugs or defects on which the Claimants rely or how "large"

their number was or the period in which they are said to have occurred and nor does it identify the transaction data that Fujitsu is alleged to have rebuilt, how “frequent” was the need to rebuild it or the extent of the “risk of error” which is said to have been introduced. In the premises, Post Office cannot plead to the first three sentences of this paragraph. However:

- (1) All IT systems experience software coding errors or bugs which require fixes to be developed and implemented. Horizon is no exception. For a system of Horizon’s scale, Post Office would characterise the number of errors or bugs in Horizon requiring fixes as relatively low. In any event, as is noted in paragraph [53 and 54] below, there are robust measures in place for their detection, correction and remediation.
- (2) All IT systems involving the transmission of data over the internet experience data or data packet errors during transmission and such systems routinely have protective measures in place to prevent such errors creating any difference between the data transmitted and the data received and retained by the recipient. Horizon has robust controls making it extremely unlikely that transaction data input in a branch would be corrupted when being transferred to, and stored in, Post Office's data centre in a manner that would not be detected and remedied.
- (3) Like all IT systems, Horizon has backups to guard against any loss of data due to local hardware failure. Where hardware fails, the data on that hardware is recovered from the backup. Post Office takes the term "rebuild" to refer to the situation before the introduction of Horizon Online where a new terminal was introduced to a branch and the data stored on the other branch terminals (or on a disc where it was a single counter branch) was restored to the new terminal. In this context, Post Office does not accept that there was a "frequent" need to recover data from back-ups.
- (4) It is admitted that Fujitsu maintain a “Known Error Log”. This is not used by Post Office and nor is it in Post Office’s control. To the best of Post Office’s information and belief, the Known Error Log is a knowledge base document used by Fujitsu which explains how to deal with, or work around, minor issues that can sometimes arise in Horizon for which (often because of their triviality) system-wide fixes have not been developed and implemented. It is not a record of software

coding errors or bugs for which system-wide fixes have been developed and implemented. To the best of Post Office's knowledge and belief, there is no issue in the Known Error Log that could affect the accuracy of a branch's accounts or the secure transmission and storage of transaction data. [

51. In paragraph 24, the Claimants again bundle many ambiguous allegations together. Post Office separates out and addresses those allegations in paragraphs [52 to 57] below.
52. As paragraph 24.1 does not explain what is meant by "error repellency", what sorts of errors are referred to, what is meant by "data entry level", what would constitute "sufficient" prevention, detection, identification or reporting of each sort of errors, or in what respects the error repellency of Horizon was insufficient, Post Office cannot plead to this paragraph. However, the general thrust of paragraph 24.1 is denied and the robust controls, procedures and practices pleaded in paragraphs [53 and 54] below are referred to.
53. As to paragraph 24.1A, it is a truism that errors or bugs in an IT system and data or data packet errors have the potential to create errors in the data held in that system. However, Horizon has at all material times included technical control measures to reduce to an extremely low level the risk of an error in the entry, transmission, replication and storage of the transaction record data. These have varied from time to time and they currently include the following:
 - (1) Horizon creates, transmits and stores transaction data in the form of "baskets". A basket is a complete transactional session between a customer and Post Office and may include one, several or many individual transactions taking place within the same session. Horizon will not accept a basket of transactions that does not net to zero (i.e. the value of any sales is set off by the value of any payment made or received). This reduces greatly the risk of any error in the data entered within any given basket.
 - (2) If a basket of transactions fails properly to complete its transmission to the central database (because, for example, of a power loss), the system rejects any partial transmission and requests the full basket from the branch terminal. This reduces greatly the possibility of baskets of transactions failing to be recorded.
 - (3) At the point of a basket being accepted by Horizon, it is assigned a unique sequential number (a "JSN") that allows it to be identified relative to the other baskets

transmitted by that branch. This reduces greatly the risk of recording duplicate baskets or there being a missing basket.

- (4) Each basket is also given a digital signature, i.e. a unique code calculated by using industry standard cryptography. If the data in the basket were to change after the digital signature was generated, this would be apparent upon checking the digital signature.
 - (5) Initial data integrity checks are undertaken when baskets are received at the Post Office data centre from a branch. Baskets are then copied from the central database to the Audit Store where a digital seal is then applied (the “**Audit Store Seal**”). If the baskets and/or the data within the baskets were altered after the application of the Audit Store Seal, this would be apparent when the baskets were extracted from the Audit Store.
 - (6) Horizon and the above controls are themselves subject to various audits and checks including audits carried out by third parties.
54. Further as to paragraph 24.1A, in addition to the technical controls referred to above, there are several operational procedures and practices conducted by Post Office and Subpostmasters that serve to increase the reliability of the data and stored in the central data centre as an accurate record of the transactions entered on branch terminals. These currently include the following:
- (1) For many transaction types, Post Office compares its own transaction record against the corresponding records held by Post Office clients. If an error in Horizon were to result in the corruption of transaction data, this should be revealed by the comparison.
 - (2) There are detailed procedures in place to address the risk of data loss resulting from interrupted sessions, power outages or telecommunications failures in branches. These are set out in the "Recovery – Horizon Online Quick Reference Guide" and Horizon guides the system user through the recovery process (which include completing any transactions that are cut short). These procedures should prevent any data errors arising from interrupted sessions, power outages and telecommunications failures.

- (3) The display of the transactions being effected on-screen at the branch terminal allows the user of the system to identify any inconsistency between the information shown on the screen and the transaction that the user has keyed into the system. If, for example, a hypothetical bug in the terminal were to cause a key-strike on number 5 to be recorded as an input of number 6, this would be detected rapidly by system users, given the large number of system users and the huge number of transactions effected on Horizon.
 - (4) The accounting and record-keeping obligations placed on Subpostmasters reduce the risk of any errors going undetected. For example, there is an obligation for each branch to count and declare to Post Office the cash it holds on a daily basis, which increases the likelihood of promptly detecting any overstatement or understatement of the cash position on Horizon. If a Subpostmaster detects that an error has been made at an early stage, its cause is more likely to be identified.
 - (5) Fujitsu operates industry standard processes for developing and updating Horizon and for identifying, investigating and resolving any identified potential system errors.
55. As to paragraph 24.2, Post Office admits that, like all other IT systems, Horizon is not a perfect system which has never had any errors or bugs. However, as indicated in paragraphs [53 and 54] above, it has robust systems in place to identify them, fix them and correct their consequences (if any).
56. As to paragraphs 24.3 and 24.4:
 - (1) There have been occasions on which bugs or errors in Horizon have resulted in discrepancies and thus shortfalls or net gains in some branch accounts, as outlined in Schedule 6 of the Letter of Response.
 - (2) On each occasion, both the bugs or errors and the resulting discrepancies in the relevant branch accounts were corrected. Post Office took steps to ensure that it had identified all branches affected by the bugs or errors and that no Subpostmaster was ultimately held responsible for any resultant shortfalls. (Where the bugs or errors resulted in net gains, however, Post Office typically allowed Subpostmasters to retain them.)

- (3) Paragraphs 4.1 to 4.5 of Schedule 6 to the Letter of Response relate to the so-called Suspense Account Bug. Without prejudice to the burden of proof, none of the branches affected by the Suspense Account Bug are branches for which the Claimants were responsible.
- (4) None of the Subpostmasters whose branches were affected by the Suspense Account Bug was ultimately held responsible for the shortfalls that it generated. The Claimants are therefore wrong to understand Post Office as having admitted that it “recovered such alleged shortfalls from Subpostmasters”. Where Subpostmasters in the affected branches had made good or settled centrally shortfalls that were later corrected, those Subpostmasters received a payment or credit in the amount of the shortfall.

Remote editing of branch transaction data

57. Paragraph 25 appears to be concerned with the editing or deletion of transaction data input by or on behalf of Subpostmasters without the consent of the relevant Subpostmaster. Accordingly, Post Office assumes that it is not concerned with transactions such as Transaction Corrections which are sent to branches but must be accepted by or on behalf of the Subpostmaster before forming part of his or her branch account. As to the circumstances in which such transaction data can be edited or deleted without the consent of the Subpostmaster:
 - (1) Neither Post Office nor Fujitsu has the ability to log on remotely to a Horizon terminal in a branch so as to conduct transactions.
 - (2) A Post Office employee with “global user” authorisation can, when physically present at a branch, use a terminal within the branch to add a transaction into the branch’s accounts. The purpose of “Global User” authorization is to allow access to the systems for during training and/or audits. Any transactions effected by a Global User are recorded against a Global User ID and are readily identifiable as such.
 - (3) Fujitsu (and not Post Office) has the ability to inject transactions into branch accounts (since the introduction of Horizon Online in 2010, transactions of this sort have been called “**Balancing Transactions**”). These transactions do not involve any removal or amendment of the transactions entered at the branch. Their intended purpose is to allow Fujitsu to correct errors or bugs in Horizon by

introducing a new transaction to cancel out the effect of an error or bug on a branch's transaction data. They may only be conducted by a small number of specialists at Fujitsu and only then used in accordance with specific authorisation requirements. They are rarely used. To the best of Post Office's information and belief, only one Balancing Transaction has ever been effected, and this was not in a branch operated by a Claimant. A Balancing Transaction is readily identifiable as such.

- (4) There are a small number of Fujitsu specialists who have certain privileged user access rights which they could in theory use to amend or delete the transaction data for a branch. The intended purpose of privileged user rights is system support, not the alteration of branch transaction data. To have abused those rights so as to alter branch transaction data and conceal that this has happened would be an extraordinarily difficult thing to do, involving complex steps (including the writing of sophisticated computer programmes and circumvention of sophisticated control measures) which would require months of planning and an exceptional level of technical expertise. Post Office has never consented to the use of privileged user rights to alter branch data and, to the best of its information and belief, these rights have never been used for this purpose.
 - (5) Post Office cannot conceive of a reason why any Fujitsu personnel would have sought to add, inject, amend or delete any transactions in any branch accounts so as to create a false shortfall. It would for all practical purposes be impossible for any of them to generate significant shortfalls without detection and, even if they were able to do so, they would be unable to take the benefit of such shortfalls for themselves.
58. As to paragraph 26, the statements referred to therein are admitted. These statements were made in April 2015 and August 2015. The Post Office representatives who were responsible for the making of these statements believed that they were true.
59. As to paragraph 27, it is admitted that, although Horizon was not designed to have this functionality, there is a highly theoretical and consequently remote possibility that certain Fujitsu personnel could abuse their privileged user rights in such a way as to edit or delete branch transaction data as described in paragraph [57(4)] above.

60. Paragraph 28 is noted. The alleged inferences are inappropriate and each of them is denied. Post Office is not aware of any material suggesting that transaction data has been edited or deleted, and nor are the Claimants.