

## Mike Granville

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**From:** Martin Humphreys  
**Sent:** 09 December 2011 12:30  
**To:** Theresa Iles  
**Cc:** Mike Granville  
**Subject:** Mike Weir MP - PQs on Horizon response for sign off  
**Importance:** High  
**Attachments:** Mike Weir PQ 9 December 2011.doc  
Theresa

Please find attached a response to 4 Parliamentary Questions from Mike Weir MP on the Horizon system.

The questions are set out below and cover a range of issues.

Due to the nature of the issues raised the response on this was pulled together by Mike Granville and has been through a number of iterations with input and clearance with a number of people including; RMG Legal - Rebekah Mantle and Emily Springford, RMG Comms - David Simpson and Shane O'Riordain and input from Rod Ismay in POL and checkstep with Mike Young, Chris Day and Susan Crichton.

Grateful if you could arrange for sign off and if I can have a copy please.

### Parliamentary Questions

(1) how many (a) prosecutions and (b) investigations of postmasters instigated by Post Office Ltd as a result of apparent financial irregularities on the Horizon computer system have subsequently been abandoned; [77794]

(2) how many complaints Post Office Ltd has received from subpostmasters concerning difficulties with the Horizon computer system in each of the last five years; [77795]

(3) whether any operational faults have been identified with the Horizon computer system used by Post Office Ltd since its introduction; and what action has been taken to resolve any such faults; [77796]

(4) what the monetary value is in current prices of the (a) original estimate and (b) final cost of the Post Office Horizon computer system; and what additional costs at current prices have been incurred since its completion. [77797]

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**GRO**



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E paula.vennells

December 2011

Mike Weir MP  
House of Commons  
LONDON  
SW1A 0AA

Your Ref:  
Our Ref:

Dear Mr Weir

Mr Edward Davey, Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills, has asked me to respond to you on the parliamentary questions that you recently asked on the Post Office Horizon computer system.

As your recent questions cover a range of issues, I believe it would be helpful if I could provide some context by briefly describing what is generally considered as 'Horizon' and the role it plays within the Post Office network and the accounting undertaken by subpostmasters.

Let me stress at the outset that Post Office Ltd is fully confident that the Horizon computer system in its branches, and all the accounting processes around it, enable subpostmasters to account accurately for the transactions they undertake in their branch.

The system has been operating for over ten years. In that time around twenty thousand subpostmasters have used it in performing many millions of successful weekly and monthly financial reconciliations between the cash they have in the office and the transactions they have handled. The Horizon system has been rigorously tested. The National Federation of Subpostmasters, which represents subpostmasters throughout the country, has expressed its full confidence in the accuracy and robustness of the system.

#### **Tried and Tested Processes**

For the tiny fraction who have not been able to reconcile their cash and transactions, there are tried and tested systems of checking, auditing and following up to determine what has happened. Examples include:

- transactions might have been miskeyed (entering 100 instead of 10),
- a clerk might have handed out too much change,
- a clerk may have forgotten to take the money for the transaction.

The checking and auditing systems in place resolve virtually all discrepancies satisfactorily. These discrepancies are caused by the same kind of small day-to-day mistakes and human errors that any large bank or retailer would experience.

In an extremely small number of cases, after all these checks have been undertaken, there remain missing sums that can't be accounted for. Where such sums are

significant, Post Office Ltd may take action to end the subpostmaster's contract. Taxpayers' money is entrusted to Post Office Ltd and it is vital that everything is fully accounted for. If significant money is missing – either as a result of lack of sufficient competence by the subpostmaster or their staff or, in extreme and very rare cases, as a result of dishonesty (where we clearly have no tolerance) – it is not appropriate for that subpostmaster to continue to operate the branch. Post Office Ltd will then seek to appoint someone new to take over.

### **Court Action**

There have been a limited number of cases where Court action has been taken over missing sums of public money. In some of these cases, the subpostmaster has made allegations against the Horizon system that records their transactions. The Courts have consistently upheld Post Office Ltd's position that the Horizon system is accurate and reliable. When former subpostmasters have been convicted of false accounting and/or theft, it is, of course, the Courts that have convicted, not Post Office Ltd. In some cases, the subpostmaster pleaded guilty; in others Post Office Ltd had to provide robust evidence. A criminal Court will only convict an individual if it considers that the evidence has shown, beyond reasonable doubt, that the individual is guilty of the offences with which they have been charged.

The Horizon system is therefore used by every subpostmaster and every Post Office counter clerk in Crown branches every day. It is used effectively and successfully. Each person using the system has an individual log in, ID and password, so all the transactions they undertake are recorded as being done by them as individuals. Each is able to run off logs of the transactions they have undertaken whenever they wish. They receive training on the system and have full access to helplines to assist them. The system underpins efficient service to our customers. It provides our subpostmasters and staff with an effective tool to accurately and efficiently manage their day to day operations.

Having established this background context, I would like to consider the questions that you have raised.

You have asked about the numbers of prosecutions and investigations instigated by Post Office Ltd as a result of "financial irregularities on the Horizon computer system" which have subsequently been abandoned.

### **Discrepancies**

"Financial irregularities" reflect situations where the cash or stock that should be in the branch, according to the data entered into the Horizon system, is not there. A

discrepancy might arise when the cash and stock that is held in the office is “short” against the amount that should be in the office in accordance with the transactions undertaken and recorded by the subpostmaster or Post Office clerk. As has been previously explained, this may happen for a range of reasons. It may well be that the issue can be quickly resolved by tracking back and identifying the issue that has caused the shortage.

We move into the area of “financial irregularity” where there is a significant loss and there is no clear initial explanation. This is most likely discovered when Post Office Ltd undertakes an audit of the office and discovers a significant shortage. Like all financial institutions and retailers, Post Office Ltd will undertake audits of branches to ensure that proper accounting practices are being followed and the assets of Post Office Ltd which ultimately belong to the taxpayer, are being kept secure. Such a shortage represents a loss to Post Office Ltd (as the cash and stock held in branch is the property of Post Office Limited) and it is, of course, vital for a publicly owned organisation to ensure that its cash and assets are managed with integrity and care. Therefore these shortages give rise to investigations and, in appropriate cases, criminal or civil action.

There is no evidence at all that the Horizon system has in some way been at fault with respect to any financial irregularities discovered in a subpostmaster’s account and no cases have been abandoned for reason of any doubt about that system.

You have also enquired about the number of complaints that Post Office Ltd has received in each of the last five years with respect to the Horizon system.

#### **Assistance for Subpostmasters**

A subpostmaster has many channels by which he or she can make enquiries or complaints about matters relating to their operation – via the management structure; with visiting training; support or audit staff; via the NFSP; or via the various helplines that are available to assist them in operating in accordance with their contract.

Each case is handled individually and central records are not held of the nature that you are specifically requesting. For example our Network Business Support Centre (NBSC) is a helpdesk service to support subpostmasters and their staff with any operational issues. The NBSC works from the same operational materials e.g. guides and manuals, that all Post Office branches have. All calls are logged and the vast majority are answered in line with the published operational manuals.

As the NBSC is the main operational point of contact for most branches, subpostmasters do from time to time register “complaints” / their dissatisfaction with the NBSC. These complaints can be about any number of operational matters, all of which are dealt with and responded to within agreed processes and timescales. A subpostmaster may have queries about their accounting processes for a wide range of

reasons and as part of this he/she may need some support on some aspect that involves operation of the computer system. For example he/she may need assistance on remedying an inputting error that he/she had already made – these are part of the normal day to day trading issues that will occur in any large retail or financial organisation.

### **Legal Action**

To consider your inquiry further, there are a tiny number of ex-subpostmasters who appear to be making distinct allegations with respect to the operation of the Horizon system. This small group of ex-subpostmasters no longer have contracts with Post Office Ltd, after significant shortages of funds were found at their office, for which they couldn't account. A legal firm, Shoosmiths, has been claiming for around a year that they are representing a number of these ex-subpostmasters. To date Shoosmiths have sent four 'letters before action', making allegations about Horizon (among other issues) and seeking information. In two of the cases the individuals have in the past pleaded guilty to false accounting. These particular cases stretch back over a period of five years.

Post Office Ltd does not accept any of the allegations that are being made and will robustly defend its position if any civil action is mounted against it.

If we assume that these 4 letters before action constitute 'complaints against Horizon' the number can be seen to be absolutely tiny in the context of a system that many thousands of subpostmasters have been using for over ten years to help produce many millions of financial reconciliations. Post Office Ltd is vigorously defending itself against such allegations and will do so in the civil courts if necessary. It regards the claims in the cases it has received as being absolutely without merit.

Separately, there have been a few occasions where an adverse comment about Horizon has been made by a subpostmaster in legal proceedings where a subpostmaster is being prosecuted for theft or false accounting, or pursued for a debt. In such cases, the Courts have consistently upheld Post Office Ltd's position that the Horizon system is accurate and reliable.

You also ask for information about operational faults with the Horizon system since its introduction and the actions taken to remedy those faults. As with any large system that is required to support changing business requirements, operational issues can occur. Industry standard tools are used to alert support teams to any such issues so that the potential impact can rapidly be assessed and, if required, rectified. Rectification actions range from straight forward hardware replacement to software patching designed to combat evolving cyber threats.

### **External Scrutiny**



Horizon and Post Office Ltd systems environment have always been subject to external scrutiny for both assurance and accreditation purposes. Ernst & Young carry out an annual financial systems audit; an independent auditor also carries out a yearly audit to maintain the system's Payment Card Industry (PCI) accreditation. The system and its Data Centre are ISO 27001 accredited which requires an annual audit from an independent agency. Horizon is also accredited by HSBC Payment Services and WorldPay (Post Office's Merchant Acquirers) and must comply with the VocaLink standard for card payment transactions. In addition to these regular audits, ad hoc independent audits of the system are initiated by Royal Mail Group and supported by Post Office Ltd.

At this stage, it is worth pointing out that the Horizon system keeps full audit records of all transactions undertaken by all log ins – so that it is always possible to track back anything that has occurred within the system – or at an individual sub post office. The system is designed such that all data is sequentially numbered at the point of its creation and is separately stored in a secure tamper proof facility for 7 years – so that recreation of situations and track back is always feasible.

#### **Cost of Horizon**

Finally, you have asked about costs of the Horizon system. You are probably aware that the system originally developed out of Government processes to automate benefits payments alongside a major automation of previous Post Office point of sale and accounting systems. It was therefore designed to meet the rigorous security standards necessary to undertake the payment of benefits. The original costs and development were the subject of substantial Parliamentary scrutiny back in the 1999/2000 period. To respond to your specific question, it may help if I quote an extract from the 2001/02 Royal Mail Group Report and Accounts;

*'Responsibility for the liabilities of the Horizon ICL/Pathway project was transferred from the Government to The Post Office in 1999. This resulted in a one-off payment by the Group for costs incurred by ICL of £550m, a write off of £571m in the 1999-2000 accounts and the incurrence of substantial ongoing maintenance costs. By the time the contract terminates in 2005, aggregate contract costs are expected to amount to some £1bn.'*

Current contracts for the operation, maintenance and ongoing development of the Horizon system are held with Fujitsu and the payments within these contracts are regarded as commercially sensitive (as disclosure could have a material impact on any future procurement exercises with respect to the system).

This has necessarily been a long letter as the issues upon which you enquire are complex and detailed. They also involve recognising a wider context of the operating and accounting systems of Post Office Ltd's business.

We have full confidence in the Horizon system and it is regarded as an important part of the successful operation of our business and the modern infrastructure that is necessary to support our nationwide network of Post Offices.

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I hope this information is helpful to you.

Yours sincerely

Paula Vennells  
Managing Director



December 2011

Mike Weir MP  
House of Commons  
LONDON  
SW1A 0AA

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**Our Ref:**

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