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Project Zebra

Supporting Your Assurance Needs

7th June 2012



Simon Baker,
Post Office Ltd.
148 Old Street,
London,
EC1V 9HQ.

Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: **GRO**
Fax: **GRO**
www.deloitte.co.uk

Dear Simon,

June 2012

Project Zebra – Supporting your Assurance Needs

As per our recent conversations, I am delighted to provide some further information summarising the possible options which we see as available to Post Office Ltd (POL) which would provide you with differing "levels" and "types" of comfort over the integrity of processing within your Horizon system.

Based on our conversations to date, my personal view is that Option B appears to best suit POL's needs. Whilst a number of comparisons are outlined in this document, my primary reason for suggesting this is that such an approach is more flexible in its delivery format and outputs. Such an approach has less reporting constraints (eg: agreed upon procedures only enables us to report factual findings, not conclusions) and fewer formal reporting protocols (eg: in a positive assurance approach, based on ISAE3000, we would be required to adhere to a prescribed reporting format and prescriptive wording and our conclusions, dictated by the standard) of a review such as this, avoiding such reporting constraints and protocols enables us to scope our forensic testing work in more pragmatic, risk focussed and time efficient way and enables us to shape our end deliverable more collaboratively with you, to ensure our findings and conclusions are most suitably reported. I strongly believe that this, combined with your current level of understanding of detailed system data flows, architectural matters and activities to manage key processing risks, will enable POL achieving best value from our work through this approach.

I would be very comfortable delivering such work to you under legal privilege, should you require this. From our team bios and credentials previously shared we have demonstrated that our team has the right experience and capabilities to give you confidence that Deloitte can deliver such a high profile and complex piece of assurance work for you, what-ever form this may take. I am confident that our background of working with IPO over the past 4 years in both IT and Financial areas (with your teams in Chesterfield) will help improve our effectiveness through all stages of the review and raise higher quality improvement suggestions with you.

My team and I are genuinely excited by the opportunity of working with POL in this area, so please don't hesitate to call me on my mobile number below whenever any further queries should these be raised in your discussions with Paula, Alice, Susan or Lesley.

Yours sincerely,

GRO

Gareth James
Partner

Three Potential Options

There are three key approaches that could be adopted by POL to provide varying degrees of assurance around the processing integrity of your Horizon system. These approaches have different characteristics, which revolve around complexity, flexibility and cost.

Our recommendation, based on our conversations to date, is that option B would most likely best suit POL's current needs. This offers the greatest degree of flexibility to define the scope to meet your requirements and has a much less "prescriptive" reporting output.

Option A Agreed Upon Procedures (AUP)	Option B Conclusions & Recommendations	Option C Positive Assurance
<p>An agreed-upon procedures engagement is one in which we issue a report of factual findings based on specific procedures performed on a defined subject matter.</p> <p>From a planning perspective, this approach can require some substantial work, as a very detailed level of understanding and discussion of needs has to take place to ensure that areas are defined for testing which would then fully supply the information that the reader of the report requires to reach their own conclusions.</p> <p>Once planning is completed, from a testing perspective, this option is the least complex of the 3 options to then 'perform'.</p> <p>The output of this exercise is prescriptive, sharing only our factual testing findings, not any other form of conclusion, opinion or recommendations.</p> <p>The interpretation of the findings in the context of the procedures is left to the reader of the report.</p>	<p>This option delivers a more flexible experience for clients, falling between the approach and reporting constraints of Option A and the approach and reporting protocols of Option B.</p> <p>The approach allows for greater flexibility in scoping, performance activities and reporting matters, and lends itself more readily to combined top down (controls) and bottom up (data analytic) testing activities.</p> <p>Success criteria for the tests to be performed, and the work performed to support these, is mutually shaped and agreed in advance (being formally documented through engagement change order procedures).</p> <p>Drivers leading to and wording of our conclusions and recommendations is discussed and agreed proactively with you. If our testing concludes positively against agreed success criteria, we are able to state that no issues were identified from our work.</p> <p>We cannot offer a formal opinion under this approach as this requires us to work under the more prescriptive and extensive framework of a recognised assurance standard.</p>	<p>This option relates to an approach performed under a formally recognised assurance framework, such as ISAE 3000.</p> <p>This framework is recognised internationally and requires that we identify and agree (i) the subject matter of the report (likely to be the Horizon system) and (ii) the criteria that we will assess the subject matter against.</p> <p>These criteria will be defined and agreed during the 'Stage 1' planning exercise of the review.</p> <p>This type of exercise will result in a form of words that states that (subject to successful testing), "in all material respects, the system operates as described".</p> <p>However, the work involved to conclude positively in this regard for a complex and high volume processing environment such as Horizon would be very considerable. 'Reasonable assurance' conclusions can be quickly undermined by only a few issues.</p> <p>The reporting output is in a prescribed format but would include does offer an opinion.</p>

Key Features and Estimated Costs

	Option A Agreed Upon Procedures	Option B Conclusion and Recommendation	Option C Positive Assurance
STAGE 1 Plan	<ul style="list-style-type: none"> Understand and document the end to end data flows, define and agree the subject matter of the exercise (the system) and the specific testing procedures to be performed (these procedures would focus on the processes, controls and data characteristics which you currently operate / expect to see in place) Produce a costed implementation plan to deliver stage 2. Requires access to all relevant systems documentation and personnel 	<ul style="list-style-type: none"> Understand and document the end to end data flows, define and agree the scope of the exercise and the specific procedures to be performed (these procedures can focus on any aspect of the system or data whether they are currently performed or will be conducted as part of this activity). Agree success measures against which testing will be performed and assessed. Produce a costed implementation plan to deliver stage 2. Requires access to all relevant systems documentation and personnel and data sets. 	<ul style="list-style-type: none"> Understand and document the end to end data flows, define and agree the subject matter of the exercise (the system) and the criteria against which we will perform our assessment. Assurance standards require that criteria must be assessed as suitable, work is needed to determine the relevance, completeness, reliability, neutrality and understandability of the chosen criteria. Produce a costed implementation plan to deliver stage 2. Requires access to all relevant systems documentation and personnel and data sets.
Cost	<ul style="list-style-type: none"> £60k Elapsed time ~ 3 weeks 	<ul style="list-style-type: none"> £75k Elapsed time ~ 4 weeks 	<ul style="list-style-type: none"> £100k Elapsed time ~ 5 weeks
STAGE 2 Perform & Report	<ul style="list-style-type: none"> Perform required test procedures and report factual findings. The output will only be the documented procedures and associated factual findings. Requires reading to review the factual findings and draw their own conclusions. 	<ul style="list-style-type: none"> Perform testing and, if success criteria met, conclude that no evidence exists to suggest the system is not operating as intended. If success criteria not met, produce recommendations for improvements. The output will be the conclusion and recommendations (if success criteria not met) 	<ul style="list-style-type: none"> Perform testing, conclude and report opinion in accordance with ISAE3000 requirements. Conclusions requires the exercise of significant professional judgement, the output being a formal opinion as supported by testing findings and written in the format prescribed by the standard. Requires your review of factual findings for validity, but the interpretation and conclusion of these findings is a purely Deloitte activity.
Estimated Cost*	<ul style="list-style-type: none"> £75k - £125k Elapsed time ~ 5 weeks 	<ul style="list-style-type: none"> £200k - £350k Elapsed time ~ 6-10 weeks 	<ul style="list-style-type: none"> £500k + Elapsed time 3 months+

* Estimated costs for Stage 2 work under each Option are based on a number of assumptions which, through our experience of the various delivery models, we have suggested likely fee outcomes to POL for consideration. Our actual costs would be charged on a time and materials basis, in line with the Advisory rate card within our framework agreement with POL, and would depend on exact scoping requirements of the performance and reporting phase. All fees exclude VAT and out of pocket expenses, which would be charged as incurred.

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