

Mr S Dilley  
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PLYMOUTH

5 September 2006

Your ref: SJD3/KAK2/348035.134  
Our ref: MM/GWP/00113049

Direct line: GRO  
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Dear Stephen

**Post Office Limited v Lee Castleton - Claim number HQ05X02706**  
**14 South Marine Drive, Bridlington YO15 3DB**

Thank you for your letter of 22 August. We shall be pleased to help in providing accountancy assistance in respect of this matter, and to prepare a formal accountancy report. I will be writing separately in relation to the formal IT report.

We have undertaken a preliminary review of the papers that you sent us. I would like to thank you for the clear way in which the papers were presented to us which has been very helpful to our initial understanding of the problems at South Marine Drive.

We realise that this is a complex matter with possible implications that are far wider than just Mr Castleton's operation of his sub post office. It will be important to present our findings in a clear and understandable way that demonstrates whether the problems solely relate to Mr Castleton or to the wider Post Office system.

**Our approach to the work**

Our approach to the work will be based on the following plan:

- a) Given that Mr Castleton did not report any problems in the five months from July 2003 when he started at South Marine Drive to 23 December 2003, we will inspect this period, firstly to confirm whether there were any indications of any problems in that period (the non problematical period). Secondly we will ascertain whether there were any differences between the operation of the sub post office and of its accounting system in the non problematical period and the subsequent period in which the alleged losses arise.
- b) It will be equally important to demonstrate that the problems ceased when Mr Castleton was suspended. Although Mr Jones reviewed the position for the initial few weeks after Mr Castleton's suspension when Mrs Simpson was running the sub



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post office, I feel that we should look at a longer period to demonstrate that the problems did not reoccur. We would therefore also consider the figures whilst Mr Booth was the temporary post master.

- c) The majority of our work will concentrate on the period of some fourteen weeks between week 39 (24 December 2003) when Mr Castleton first reported a problem in balancing and week 52 (24 March 2004) when he was suspended. For this period we propose to look at transactions on a strict chronological basis, day by day.
- d) We will look at the daily transactions to see if there are any anomalies. We will investigate each problem that arose to ascertain its cause. We will then look at whether Mr Castleton reported the problem and how it was dealt with.
- e) We will in effect be recreating the summary that Mr Jones produced (document 54) but will demonstrate where each figure comes from and how it has been verified. We will also ensure that all summaries are understandable to those unfamiliar with the Post Office accounting system.
- f) Given that there are suggestions that some parts of the difference may have been duplicated we will be paying special attention to how each difference has been dealt with and to see whether it could in some way affect subsequent days.
- g) The case against Mr Castleton has been based on the Horizon accounting system records generated at South Marine Drive. We will consider the extent to which transactions can be proved externally. We will therefore wish check whether errors have arisen in the paperwork that Mr Castleton sent to the transaction processing centre and whether any such errors have been corrected properly at South Marine Drive. This would also apply to any errors resulting from documents sent to National Savings, Girobank or other organisations for which the sub post office accepts deposits or allows withdrawals.
- h) We will need to consider any matters relating to the accounting system that were discussed by Mr Castleton at meetings with Post Office managers before he first told Catherine Oglesby that he had a problem balancing week 39. I assume that as a new sub-postmaster there would have been visits by Ms Oglesby or other supervisors during the summer and autumn of 2003.
- i) We will consider whether there are indications that any of the differences are due to the actions of Mr Castleton's staff. He says that the differences were not caused by his staff and I feel that this must be explored.
- j) We have a summary of the telephone call log from South Marine Drive to the help desk for the period 19 January to 23 April 2004 and prints of the call details from 20 January to 23 March 2004. For completeness we will need to review a longer period to see both what problems Mr Castleton had reported in the period from July 2003 and any that were reported by the temporary postmasters after his suspension.



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- k) We are aware that there are issues regarding Mr Castleton's ordering of cash for the payment of pensions and benefits and the deposit of cash by customers. We will examine these points to see what effect they have, if any, on the differences.
- l) Our conclusions will be presented in a detailed report that will include:
  - a. An explanation of the Post Office accounting system as it affected the South Marine Drive sub post office;
  - b. Mr Castleton's operation of the system noting any divergences from Post Office rules or recommended practice;
  - c. A discussion of any errors that have arisen and our conclusions as to the losses that have arisen and their causes.

Our costs will reflect the considerable amount of detailed checking that will be required. We appreciate the importance of establishing whether the problems at South Marine Drive are peculiar to Mr Castleton or whether there are wider implications for the Horizon system.

I attach with this letter and estimate of our time costs. The costs estimate is based on the assumption that the Post Office can send us copies of computer files or documents and that we do not need to visit Bridlington.

This estimate is based on our appreciation of the work that will be required. If indeed the assignment takes less time than I have envisaged I will advise you and we will obviously invoice our actual time costs. I do not envisage our costs exceeding this amount.

***Early indications of problems with the Horizon system***

We have found that there is some indication of possible problems with Horizon from our initial review of the electronic information you sent us. You sent the transaction summaries for January, February and March 2004. In theory the system should reflect the double entry nature of each transaction, e.g. the system should show the sale of a stamp and the receipt of the cash paid by the customer. Therefore the Horizon transaction entries for a period (whether day or month) should total zero. From our initial review we can see that March balances but January is out by £2.47 and February by £4.05. We have found which transactions cause the differences and will investigate them in due course. Although these are very small amounts they do indicate that some problems may exist i.e. that the double entry is not being put through.



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*An explanation of the Horizon system*

As discussed on the telephone it would be helpful for Geoff Porter and Liz Padley, who will be undertaking the detailed investigations, to meet someone from the Post Office who can explain the operation of the Horizon system. Ideally we would want to have the same understanding of the system that Mr Castleton as a recently appointed sub-postmaster would have received in his training. Ideally this should be undertaken at an early stage, before we start our detailed work.

It will also be useful to have a contact at the Post Office who can provide us with any additional information we may need.

On the subject of the IT report I am in contact with my colleagues in our London office and hope shortly to be able to arrange a meeting to discuss this aspect of our work.

Please let me know if there are any points you wish to discuss. Thank you again for your instructions.

Yours sincerely

Michael J Mason  
Director

Encl: time/cost budget

## POST OFFICE v CASTLETON

## TIME COST BUDGET FOR PREPARATION OF THE EXPERT ACCOUNTANCY REPORT

	<b>MJ Mason Director Hours</b>	<b>G Porter Senior manager Hours</b>	<b>E Padely Forensic senior Hours</b>	<b>Total Hours</b>
Planning and initial review of papers	5	15		20
Comprehension of the system	2	5	15	22
Investigating work from Dec 03 to end of week 03			120	120
Review of earlier period			15	15
Review of subsequent period			15	15
Preparation of report		30		30
Review of work and supervision	10			10
Liasing with IT expert	5	10		15
<b>Total hours</b>	<b>22</b>	<b>60</b>	<b>165</b>	<b>247</b>
Hourly rates	£ 278.00	£ 278.00	£ 239.00	
<b>Cost</b>	<b>6,116</b>	<b>16,680</b>	<b>39,435</b>	<b>£ 62,231</b>