

## IN THE MATTER OF THE POST OFFICE HORIZON IT INQUIRY

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**'PHASE END' CLOSING SUBMISSIONS:**  
**PHASE 3**  
*On behalf of POST OFFICE LIMITED*

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### INTRODUCTION

1. These submissions are made on behalf of Post Office Limited ("POL")<sup>1</sup> in accordance with the Chair's directions of 4 April 2023. They are necessarily brief, in accordance with those directions, and are made for the purpose of highlighting a number of key issues and themes arising from the evidence heard in Phase 3,<sup>2</sup> rather than seeking to address each of the issues in the Completed List of Issues considered in Phase 3 in turn.<sup>3</sup>
2. These themes are:
  - (1) Modifications (suspense account)
  - (2) Resolving disputes
  - (3) Knowledge
  - (4) Training
  - (5) Audit data
  - (6) Remote access
3. Before addressing those themes, POL would reiterate that, as it made clear in its opening statement at the start of Phase 2 in October 2022, it does not come before this Inquiry convinced that it knows all the answers, and POL regards a key part of its role as being to listen to, and learn from, all the evidence and representations made by other Core Participants.
4. Some of the evidence that the Inquiry has heard over the last five months has been extremely uncomfortable to hear, and has given rise to real concern for POL. In particular, and as more fully set out below, there has been evidence that, in respect of at least some POL employees:
  - 4.1. There was a mindset that dishonesty was widespread on the part of Postmasters;

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<sup>1</sup> POL uses the same abbreviations ("POL" and "Fujitsu") as in its phase 2 closing submissions (see footnote 2). The term "Postmaster" is used to refer to those individuals, companies and partnerships who/which are responsible for running branches in the Post Office network pursuant to contracts with POL, but excluding those individuals who are directly employed by POL to work in branches that are directly managed by POL. Depending on the context, references to "the Postmaster" should be read as referring to or including, as appropriate, the Postmaster's staff and/or representatives.

<sup>2</sup> References to transcripts in this document are given in the form T day/month/year [page:line – page:line].

<sup>3</sup> POL has also not sought to make submissions on a number of issues which were traversed during the Phase 3 hearings but which more directly relate to Phase 4 issues.

- 4.2. There was a mindset, even setting aside any issue of dishonesty, that such issues as did arise with the Horizon system were always due to user rather than system error;
  - 4.3. There was strong resistance to countenancing the existence of any flaws in the Horizon system; and/or
  - 4.4. When system issues were identified there was a mindset that there was an advantage in ensuring that Postmasters were not kept informed of them and equally which saw disadvantage in the more widespread dissemination of information about them.
5. The effect of these mindsets was compounded by the fact that:
- 5.1. The organisation and hierarchy of POL was such that junior employees did not feel able to escalate issues upwards which resulted in insufficient overview being taken at appropriately senior levels;<sup>4</sup> and
  - 5.2. Some important roles, in particular in relation to the dispute resolution procedures, were occupied by individuals who did not have sufficient experience of the Horizon technology and who were not sufficiently senior within the overall organisation.
6. POL fully recognises that the Inquiry is likely to be critical of some or all of these aspects of past behaviour and procedures. In later phases POL will seek to demonstrate that the changes in culture and organisation in POL which have been effected since the GLO are profound and far-reaching and are designed to ensure that mistakes like this can never happen again. Lessons have been learnt and that is an ongoing process.
7. A further relevant factor in this context is POL's (corporate) understanding, prior to Fraser J's handing down of the Horizon Issues Judgment in December 2019, that Postmasters were contractually liable for all losses in their branch and for the actions of all of their staff. This mindset is somewhat different to those set out above, in the sense that it reflected POL's understanding of the legal position, rather than a particular attitude or frame of mind.
8. This factor is addressed in more detail below in the context of dispute resolution, but in short POL submits that the Inquiry should be careful to avoid adversely judging past behaviour based on (what has now been found to be) an erroneous legal understanding which was not unreasonable at the time.

## **(1) MODIFICATIONS: IMPACT AND THE SUSPENSE ACCOUNT**

### **(a) The Nature and Impact of the Modification**

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<sup>4</sup> See for example Gary Blackburn's evidence when asked what would have happened to him if he had challenged those above him at T 28/2/23 [233:12 -233:19]: "[in] a highly politicised organisation, very hierarchical, I'd have been seen stepping out of line with the message. I can't imagine that would have been good for my career, so I'm sure at that point in time – and this is obviously a hindsight reflection – I obviously, on occasions, chose to unconsciously protect myself".

9. Although a number of witnesses have simply referred to the 'removal of the suspense account', the modification in relation to the suspense account was a little more nuanced than that characterisation.
10. Under Horizon as rolled out in 1999/2000, the suspense account was intended for use by POL as a facility to help offices balance where there was a known error that would result in a transaction correction: see the ICL Horizon Workbook "Balancing Using the Horizon System".<sup>5</sup>
11. In theory, Postmasters were only supposed to post items to the suspense account when authorised by a Retail Network Manager ("RNM"). The default was that losses and gains had to be cleared immediately, except in exceptional circumstances, where permission could be sought from an RNM to carry losses in suspense for a maximum of 8 weeks. If a compensating error had not been revealed by the end of the authority period, the amount should have been removed from the suspense account and the loss made good. This policy was set out in various documents, including the Balancing With Horizon Manual,<sup>6</sup> which provided that:

*"If a loss is moved to the Suspense Account, the retail network manager must be contacted (via NBSC) the day after the balance has taken place to seek permission to hold the amount.... If the RNM refuses authority to hold the amount, it should be removed from the Suspense Account and made good before the end of the next balance period."*

12. In practice, however, it appears to have been possible for staff and Postmasters to post and keep items in the suspense account without authorisation. This was because a branch was able to roll over to new trading periods without clearing the suspense account. Amounts could therefore remain in the suspense account until they were checked and identified by audit teams.
13. IMPACT introduced automation around back-end systems, which was intended to give Postmasters and central finance a more up to date view of branch accounts. The idea appears to have been that the more frequent and automatic balancing that would occur *within* balance and trading periods would reduce the amount of unexplained discrepancies at the end of each trading period. There are multiple balancing periods in each trading period. As Postmasters would be given the information needed to address variances *within* each trading period, there would be less of a need to post items to suspense at the *end* of each trading period. As Stephen Grayston said in his evidence: *"To me, it was an appropriate action to take if you were running true end to end processing. You didn't need or you shouldn't need the ability to manually post into an office's accounting position."*<sup>7</sup>

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<sup>5</sup> FUJ00119656

<sup>6</sup> POL00036884

<sup>7</sup> T 27/02/23 [37:21-25]



14. The actual changes that were eventually made to the cash suspense account functionality were, in summary:
  - 14.1. The ability for branch staff to post cash discrepancies to a suspense account was removed. Instead, each stock unit when rolling over in a balancing period would have discrepancies (including cash discrepancies) automatically posted to an office-wide local suspense account (the introduction of 'local suspense' / 'local adjustment' was a new concept). The last stock unit to roll over at the end of each trading period would have to settle the local suspense account before being allowed to roll over.
  - 14.2. The ways to settle the discrepancies in the local suspense at the end of each trading period were to: (i) make good cash (physically add or remove the amount of cash to achieve a nil balance); (ii) settle centrally or (iii) settle centrally and dispute the discrepancy. The only way to dispute a transaction was therefore to use the "settle centrally" option and then have the discrepancy 'suspended' to allow time for further investigations and / or a transaction correction to be issued (see PowerPoint titled "Training guide for managers"<sup>8</sup>).
15. The facilities for posting certain other products to the suspense account would remain available to be used, but only following prior authorisation via POL's central processes and were to be restricted to use by branch staff with Horizon manager / supervisor roles.

(b) The Rationale for the Modification

16. Around January to February 2004, discussions took place as to whether to keep the manual authorisation process for branch staff to post cash discrepancies in suspense, or whether to remove the cash suspense account facility altogether, although it is unclear which individuals or group actually took this decision:
  - 16.1. David Smith, in response to a question from CTI as to who made the decision to remove the suspense account function, said *"I don't recall making that decision. That's not to say I wasn't involved in it but I don't recall it... I think the process ownership would have been whoever was running transaction processing at the time. They would be the process owner here. As – in charge of project management, we didn't make up the requirements. The requirements came from the sponsor. So in this case, with IMPACT, the sponsoring unit would have been Transaction Processing"*.<sup>9</sup>
  - 16.2. Susan Harding said *"I honestly can't remember. If I was in a meeting with those senior stakeholders, it would not have been my decision"* and *"at the end of the day they may have been – it may have been the programme board which would have been people like... Peter Corbett. And then there would be somebody absolutely from Network, and that might have included POID"*.<sup>10</sup>

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<sup>8</sup> POL000318227

<sup>9</sup> T 24/02/23 [28:18 – 29:5]

<sup>10</sup> T 22/02/23 [83:17 – 84:14]



17. Based on the contemporaneous documents, and bearing in mind the fact that at the time POL was acting in the mistaken belief that the Postmasters' contractual obligation to make good discrepancies was absolute, the reasons for the decision to remove the cash suspense products appear to be that: (i) there was a concern that the facilities were being used (or could be used) without authorisation from RNMs, sometimes to conceal fraud; and (ii) it was anticipated that the back-end automation introduced by IMPACT would reduce the need for a cash suspense facility. See in particular:
- 17.1. The document titled "Branch Trading Reporting, Management and Control and Transaction Management Conceptual Design", dated 3 March 2004, which recorded that *"the analysis has also identified requirements to more tightly control and police the use of the suspense account within the branch accounts, only a limited subset of the existing suspense account products will be retained. The contractual requirement for agents to make good unknown errors in branch accounts will be used instead."* (Section 6.7)<sup>11</sup>
- 17.2. A Q&A document on "Branch Suspense Accounts and Trading Statements", undated, which suggests that the suspense facility was sometimes being used by Postmasters without being authorised by their RNM (contrary to the proper procedure):
- Q: Please advise why suspense accounts were removed from branches / postmasters in 2005, and at that time what alternative processes were put into place to manage shortfalls / discrepancies at branches?*
- A: "The original processes to be followed when dealing with losses and gains on Horizon are described on pages 65-79 of the "Balancing with Horizon" document (POL-0171229.pdf)*
- Prior to 2005, accounting was done on a weekly basis. With approval from their Retail Network Manager, a Postmaster was able to carry shortfalls (and gains) into the next accounting period through placing them into the Local Suspense Account.*
- However, this facility was sometimes used by Postmasters without being authorised by their Retails Network Manager..."*<sup>12</sup>
- 17.3. A document from the Risk and Compliance Committee meeting dated 8 November 2005 confirms this view, where it states that in relation to branch audit findings and investigation activity *"positive action has been taken through Branch Control since last year. This has reduced the incidence of 'suspense accounts' being abused to conceal fraud."*<sup>13</sup>
18. The evidence for the rationale behind the modification referred to by CTI in opening was the witness statement of Susan Harding (§31), whose role was Business Process Architect during the design of the IMPACT programme. When giving evidence she agreed that by "hide" she meant *'dishonestly place'*, based on *"the record of people who had*

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<sup>11</sup> POL00038878

<sup>12</sup> POL00037835

<sup>13</sup> POL00021419

been prosecuted successfully in the past"<sup>14</sup> and she accepted that she seemed to be operating on the basis that it must be "nefarious",<sup>15</sup> a belief she held throughout her time at Post Office.<sup>16</sup>

19. Rather more nuanced evidence was given by Stephen Grayston, who was the Change Management Lead for the IMPACT programme, and Ms Harding's Business Change Manager. Having accepted that there was a perception that Postmasters were using the suspense account to hide money that they could not account for or had stolen, he 'unpacked' that answer:

*"In my experience... there were instances where SPMs wished to use an amount of money for other purposes, not with the intention of theft or permanently deprive, but wanted to or needed to use it for other purposes. So it was a facility or an opportunity should someone so wish to, undertake something short-term using Post Office cash. There were instances, I believe, where it involved theft, and you know, I'm sure there's a lot of analysis within Post Office on the types of cases, the numbers of cases, the amounts involved that, you know, were regularly discussed at post office management level."*<sup>17</sup>

#### CTI's Characterisation of the modification

20. In his opening statement CTI characterised the removal of the suspense account as "the most noteworthy modification provided by policy",<sup>18</sup> and there was evidence that the reason for it was "because of a sense that the suspense account was being used to hide disparities".<sup>19</sup> He asserted that "It was obvious that, as a result of this modification, subpostmasters were put in a position where it was more difficult to dispute shortfalls or discrepancies. Indeed, that was the very point of the change being made ...."<sup>20</sup>
21. POL agrees with some, but not all, aspects of this characterisation. For the reasons set out above, its position is that: (i) the modification in relation to the suspense account was the most noteworthy modification for the purposes of the issues under consideration by the Inquiry; (ii) a (not the sole or predominant) factor taken into account in deciding to make that modification was a sense that the suspense account was being used to hide disparities; (iii) following the modification it was more difficult in practice for Postmasters to dispute shortfalls or discrepancies but this difference was due, not to the modification itself, but to an apparent failure to ensure that the previous policy (of requiring authorisation from a RNM before monies could be retained in the suspense account) was adhered to; and (iv) the increased difficulty was not the sole point of the change being made.

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<sup>14</sup> T 22/02/2023 [18:24 – 19:12]

<sup>15</sup> T 22/02/2023 [32:2-16]

<sup>16</sup> T 22/02/2023 [29:25 – 30:16] Ms Harding left POL in 2017.

<sup>17</sup> T 27/02/2023 [27:3-16]

<sup>18</sup> T 12/11/22 [43:16]

<sup>19</sup> T 12/11/22 [45:22-24]

<sup>20</sup> T 12/11/22 [45:23-46:4]

22. As set out above, POL submits that the change was made for understandable and legitimate reasons. POL submits that it was not unreasonable to have regard to potential criminality when considering appropriate modifications to be made to Horizon (not least given POL's obligations to protect the public purse); but accepts that where that factor was treated as a presumption that all Postmasters suffering shortfalls were criminal (or otherwise at fault) in the context of investigations, civil recoveries and/or prosecutions, that mindset had the potential to result in serious injustice to Postmasters.
23. As for whether the modification made it more difficult for Postmasters to dispute shortfalls or discrepancies, this issue falls into two parts. First, the change to the process to be followed in order to raise a dispute was marginal. Had the pre-IMPACT policies been followed properly, a Postmaster would have had to contact the RNM to obtain authorisation to put shortfalls into the suspense account; the post-IMPACT policy required that a Postmaster instead had to contact the Network Business Support Centre ("NBSC") to raise a dispute: a difference but not a material one. Equally, there was no difference between the nature of the investigation that would have been followed for a disputed shortfall as between the pre- and post-IMPACT policies: in both cases the starting point would have been that the onus fell on the Postmaster to disprove liability for the shortfall, based on POL's (then) understanding of the contractual position (as to which, see section 2 below).
24. The main difference between the position pre- and post-IMPACT was the effect of clicking 'settle centrally'. Andy Winn accepted that this *"force[d] the subpostmaster to accept the validity of the transaction correction before a proper exploration of the dispute"*<sup>21</sup> and that *"everybody's understanding"* of doing so was that it meant the Postmaster had accepted the debt.<sup>22</sup>
25. To that extent the modification in respect of the suspense account could properly be said to have made it more difficult to dispute shortfalls, POL recognises that Postmasters should not have been required to accept the validity of a transaction correction before a proper investigation of the dispute.
26. The changes which have been made to the dispute resolution process following the settlement of the GLO proceedings, which include a modification to the Horizon screen to enable Postmasters to register a dispute via that screen rather than separately, are summarised at section 2 below.

## (2) RESOLVING DISPUTES

### (i) POL's contemporaneous understanding of Postmasters' contractual obligations

27. POL submits that in considering the processes and procedures in place for the resolution of disputes over shortfalls, it is critical to have due regard to POL's contemporaneous understanding of Postmasters' contractual obligations towards it.

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<sup>21</sup> T 03/03/23 38:10-39:1

<sup>22</sup> T 03/03/23 50:22-51:10, 51:17-51:20



28. POL accepts the findings of Fraser J in the Common Issues Judgment and has worked hard in the years since the GLO was settled to ensure that significant changes are implemented to contracts, policies and working practices.
29. However, it needs to be recognised that Fraser J's interpretation of the respective obligations of POL and the Postmaster is significantly different from POL's genuinely held beliefs at the time as to what those obligations were. In particular POL held genuine beliefs that:
  - 29.1. Postmasters were contractually liable for all losses in their branch and for the actions of all of their staff;
  - 29.2. The burden was on the Postmasters to provide evidence that they should not be so liable (which in a sense flowed from the belief as to the Postmasters' contractual liability); and
  - 29.3. There were no widespread problems with Horizon - and if and when problems were encountered they were promptly addressed and appropriate corrective action taken. In respect of this belief, POL was largely reliant on what Fujitsu was (and was not) telling POL.
30. The belief as to the contractual liability of Postmasters is key. It was clearly spelt out in all relevant contracts with Postmasters and was repeated in the various policy documents which POL prepared (and which, in reality, were more likely to inform the attitudes of POL employees than the formal contracts).
31. Fraser J found that the true meaning of the obligations in the contracts were more complex and nuanced than is provided for in the words of the contracts (or the various policy documents which were produced in light of POL's then understanding of the position) – and POL now accepts that. But throughout the relevant period, POL's belief was that that was not the case. The reasonableness of that belief is supported by e.g. the legal advice given to POL by Linklaters in 2014, which was to the effect that under their contracts Postmasters were automatically responsible for all losses if it could be shown that they were at least in error.<sup>23</sup>
32. It follows that while POL now accepts that, in light of the CIJ, it was mistaken as to the true nature of the relationship between POL and the Postmasters, and must accept the legal consequences of that mistake, it would be wrong to treat each and every past action on the part of POL and its employees as though that action were taken in the knowledge that it was mistaken and not in accordance with POL's contractual obligations. That is not the case. The Inquiry is invited to bear this carefully in mind and to resist the temptation to judge POL and its employees as though the matters set out in the CIJ were plain and obvious to everyone in the preceding two decades: they were not. At the time,

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<sup>23</sup> POL00006354 at §5.44. Linklaters also advised that the “*sound contractual basis for the recovery of losses ...is supported or in any event, supplemented, by the general law governing an agent's duties to his principal.*” (§5.48)

POL believed that it was administering the contracts in the way it was obliged and entitled to.

(ii) Processes and Procedures

*From roll-out to IMPACT (2005)*

33. As set out above, until 2005 POL's policy was that the purpose of the suspense account was to provide sufficient time for a compensating error to be revealed within the period for which an RNM had given authority to hold the loss; and if no such error became apparent, the amount was required to be removed from the suspense account and the loss made good.
34. Responsibility for matching/reconciling third party data received by POL and data recorded by the branch in its Horizon account lay with the Product and Branch Accounting Team ('P&BA') within POL. Where data could not be matched and a discrepancy/shortfall arose as a result, one of the teams within the P&BA would investigate the issue and issue an error notice/transaction correction if the data could not be matched in order to correct a branch's accounting position.
35. The P&BA Team consisted of different teams led by different Team Leaders, including product-specialist teams. The product-specialist teams could become involved in investigating a discrepancy or shortfall that related to a transaction correction issued in respect of a product in which that particular P&BA team specialised. Over the years, changes occurred in relation to the structure and size of the FSC and the teams which sat within it. The P&BA fell under the responsibility of Rod Ismay from 2003 until 2016.<sup>24</sup>
36. If a Postmaster disputed an error notice/transaction correction (or absence of one) then, generally, the Postmaster could call the NBSC as a first point of contact for help, to raise their issue or query. If the NBSC was unable to resolve the issue this might then have been directed to the P&BA Team which issued it (and therefore specialised in that particular product).<sup>25</sup>
37. If a Postmaster received a transaction correction which they did not understand or wished to challenge, they could contact the phone number provided on the disputed transaction correction. This phone number would be the number of the P&BA team who issued it or that of the NBSC.<sup>26</sup>

*2005 to 2016*

38. A guide issued by the P&BA dated October 2005<sup>27</sup> provided for the following procedures:

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<sup>24</sup> From 2003-2005, Mr Ismay's title was "Head of Risk Management & Control", from 2005-2011 it was "Head of P&BA" and then from 2012-2016 it was "Head of FSC".

<sup>25</sup> See for example POL00032960 and POL-0173142

<sup>26</sup> See page 3 of the Guide referred to in the paragraph below – POL00085794

<sup>27</sup> POL00085794

- 38.1. If a Postmaster received a transaction correction for over £150 which they wished to query or dispute, then they could choose an option to "*accept and settle centrally*" the amount of the discrepancy/shortfall. This was an alternative to the option to "*accept and make good*" the amount of the transaction correction (either by cash or cheque). The option to "*accept and settle centrally*" was only available for amounts over £150.
- 38.2. Following a decision to "*accept and settle centrally*", the amount would be moved into the Postmaster's central account. If it was a shortfall and the Postmaster did not dispute it, a team within the P&BA would initiate the debt recovery process. If, however, the Postmaster chose to dispute the transaction correction, they would be given a reference number to acknowledge further investigation was due by the P&BA team and the debt recovery process would be put on hold pending investigation. This guide also states that if the Postmaster had a discrepancy for over £150 and "*[they] can provide evidence*" that this was an error which would be rectified by a compensating transaction correction, then they could report this by contacting the NBSC helpline who would advise the P&BA team to contact the branch.
- 38.3. It appears that Postmasters were able to ask for a discrepancy/shortfall to be investigated in this way before a transaction correction was issued, or the P&BA team might have contacted the Postmaster to either clarify a transaction under investigation, or discuss what appears to be a discrepancy to ensure that the transaction correction could be understood when it was received. However, if the discrepancy had already led to a transaction correction being issued, the Postmaster would only have the option to "*accept and settle centrally*" as above.
39. If the P&BA Team was unable to resolve a dispute which related to a discrepancy/shortfall or error notice/transaction correction, then it could escalate the issue further. From 2008 until 2016, the person to whom discrepancy/shortfall disputes or issues could be ultimately escalated for investigation or resolution was the "Relationship Manager" who sat within the P&BA Team (renamed the Finance Service Centre in 2012).
40. The Relationship Manager's role was to investigate and resolve issues/disputes, including where (i) a Postmaster did not agree with the outcome of an investigation of another team (such as the NBSC or P&BA/FSC), and/or (ii) if an issue was considered particularly complex. Such queries could arise from multiple avenues, including P&BA/the FSC, those raising concerns on behalf of a Postmaster (such as an Area Manager, NFSP or senior management) and a Postmaster contacting the Relationship Manager directly. The Relationship Manager's role was to act as an independent and final point of escalation for investigations into any discrepancy/shortfall.<sup>28</sup> This role was performed by Mr Winn during this period. In his oral evidence to the Inquiry, Mr Winn agreed that prior to his start in his role, there was no recognised dispute process.<sup>29</sup>

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<sup>28</sup> POL00088897

<sup>29</sup> T 03/03/23 [165:7-165:17]



41. In addition to changes in relation to the P&BA, in or around 2006, a “Branch Support Team” was created who the Tier 2 NBSC team could contact if a discrepancy/shortfall issue could not be resolved. The Branch Support Team could be involved in gathering data from the branch in relation to the issue and would decide if further training or face-to-face support was required for the Postmaster. The Branch Support Team was an administration team who provided a further tier of support to arrange training or intervention to assist Postmasters outside of NBSC’s remit.<sup>30</sup>

*2016 to 2020<sup>31</sup>*

42. In 2016, following the Initial Complaints & Mediation Scheme, the Support Services Resolution Team (“SSRT”) was created. This team’s remit was to act as a final point of escalation in relation to any complex discrepancies/shortfalls issues and to independently investigate the source of issues and to try and resolve disputes.
43. This team’s function was similar to that which had been performed by the Relationship Manager, but it did not sit within the FSC. A discrepancy/shortfall issue or dispute could be escalated to the SSRT from any part of the organisation where it was deemed that an issue was complex enough to merit the SSRT’s involvement. The SSRT’s role was to act as an independent and final point of escalation for investigation into any discrepancy/shortfall.
44. The SSRT was renamed the Contract Investigations Resolution Team (the “CIRT”) in September 2019. This team is now called the Tier 3 team and serves a similar function; it is the escalation point for the most complex cases from the current Tier 2 team. If the Postmaster or their representative is not satisfied with the result of the investigation, the Tier 2 team can escalate the issue for review to the Tier 3 team. Together, the Tier 2 and Tier 3 teams are called the “Investigations Teams”.
45. In April 2019, functions in relation to transaction corrections were split into two separate and independent teams: (i) a team was created with the remit of issuing transaction corrections only (and not in the investigation of any disputes that may arise subsequently); and (ii) a team with a more investigative role relating to transaction corrections called the “Transaction Corrections Disputes Team”.

*From November 2020*

46. The current policies are markedly different from the previous policies in a number of regards:

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<sup>30</sup> See for example POL-0024119

<sup>31</sup> The period post-2016 was not addressed by any witness during the Phase 3 hearings, but given that the ‘relevant period’ for the purpose of the Completed List of Issues extends to 1 June 2021, and it does not appear that this period will be covered in any subsequent phase, this summary is included here for completeness.

- 46.1. Losses have to be “established”;
  - 46.2. Settling centrally does not convey acceptance;
  - 46.3. Issues with Horizon are acknowledged; and
  - 46.4. Recovery is only possible following a fair investigation.
47. There are also two important responsibilities on POL which did not appear in earlier documents. First, POL must monitor potential discrepancies and must actively engage with Postmasters to deal with them at source. Secondly, POL must bring known faults to the attention of Postmasters rather than merely accepting payment for losses.
48. There is now a three-tiered system for investigating and resolving disputes, sitting under Network Support & Resolution. The Tier 1 Team is the initial point of contact within what is now called the Branch Support Centre (“BSC”). Any issues which cannot be resolved are escalated to the “triage” team within the Tier 2 team which determines whether or not a discrepancy/shortfall issue should be escalated to the Tier 2 team, which performs an investigative function in relation to discrepancies (both generally and in relation to transaction corrections)

#### Criticisms of the dispute resolution process

49. It is clear from the various policy documents that from the outset, and until significant changes in November 2020, the approach taken by POL was that:
- 49.1. Postmasters were treated as being automatically contractually liable for all losses;
  - 49.2. Postmasters were treated as having an evidential burden to disprove any losses arising on Horizon;
  - 49.3. Postmasters were held liable for all actions of their staff;
  - 49.4. Immediate cash payment was the preferred and default means of ‘making good’; and
  - 49.5. Clicking ‘settle centrally’ was effectively accepted as conclusive proof of acceptance of liability if the Postmaster did not also raise a dispute in relation to a discrepancy as well as selecting this option.
50. POL accepts that these policies could, and in many cases did, operate harshly and unfairly.
51. It also accepts that, despite the importance of the role of Relationship Manager, the appointment of Mr Winn in that role was inappropriate in circumstances when he was relatively junior,<sup>32</sup> had little technological understanding and no training to be a team leader in the problem management team. The fact those in competition for that role would all have had similar backgrounds<sup>33</sup> is obviously no answer to criticism in this context. POL accepts that given the significance of the role, it ought to have been filled by someone with greater and more relevant experience.

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<sup>32</sup> Grade 3B.

<sup>33</sup> T 3/3/23 [10:3-10:8]

52. That decision nevertheless should be considered against the background that these policies reflected POL's then understanding of the nature of the contractual relationship between POL and Postmasters (which Fraser J rejected in the Common Issues Trial in the GLO). It also reflected a belief in the reliability of the Horizon system and its data, which POL also accepts was ultimately misplaced.
53. Finally, it is noted that in the course of oral closings, Mr Stein KC, on behalf of the Howe & Co CPs, made a complaint about the failure to provide disclosure of the Helpdesk scripts.<sup>34</sup> As the Inquiry is already aware, the position here is that from the inception of the NBSC until 2014, it was run by the Royal Mail Group (or its predecessors) ("RMG") and any guidance for the NBSC was accessed through an RMG system called "Remedy". RMG has stated that it has not retained any data from Remedy. In 2014 the Knowledge Based Articles ("KBAs"), which would include any scripts provided to NBSC staff, that were on Remedy at that date were transferred to POL's NBSC KBA SharePoint site and accessed through a platform called "Microsoft Dynamics" ("Dynamics"). Since 2018, any new KBAs that were created were created and managed directly in Dynamics while KBAs stored on the NBSC KBA SharePoint site were transferred to Dynamics in December 2021. Both for the purposes of the GLO and the Inquiry, POL has carried out reasonable searches of the NBSC KBA SharePoint site and has explained the nature of such searches to the Inquiry in some detail. In addition POL has searched some custodian mailboxes, email distribution lists, a shared drive and other SharePoint sites. POL has provided the Inquiry with relevant material responsive to all of these searches.

**(3) KNOWLEDGE**

54. Two consistent themes emerged from the Fujitsu evidence:
- 54.1. First, that Fujitsu's own procedures were poorly documented, inconsistently applied, were heavily reliant on the discipline and integrity of individuals, and that important procedures, such as when remote access was effected, were not audited and may not have been recorded;
- 54.2. Secondly, that Fujitsu's communication of important information to POL (including information relating to the fact and extent of bugs, whether such bugs had been resolved, and whether any change had been made to branch accounts) was similarly inconsistent, incomplete and not governed by procedures which were consistently applied or audited; and that despite Fujitsu witnesses continuing to assert that relevant information was conveyed to POL, there is little evidence of any such communication, still less of any such communication taking place in a structured and auditable manner; moreover, no evidence has been heard from any witness who is able to give first-hand evidence of any such communication.
55. On the first of these points see for example:
- 55.1. The evidence of Anne Chambers that:

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<sup>34</sup> T 17/5/23 [89:23 – 92:7]



- 55.1.1. Event logs that were investigated whilst dealing with a ticket (i.e. a PEAK or a KEL) were not always preserved with the ticket, and if they were not it was up to the discretion of the individual within the SSC team to decide whether to keep the event log, and if so, for how long.<sup>35</sup>
- 55.1.2. Whether or not an update was copied to a PEAK after being added to Powerhelp depended on the helpdesk using the right category for the update, which could have *“lead to left hand not knowing what the right hand is doing”* or *“information just not being passed through to the people who are probably being expected to give an answer”*.<sup>36</sup>

55.2. The evidence of Steve Parker that:

- 55.2.1. No-one undertook any ongoing monitoring of how the KEL system was working in practice;<sup>37</sup>
- 55.2.2. There was no system in place to ensure that SSC staff in fact only accessed the live estate to correct data in response to an authorised Operational Correction Requests (“OCR”), no audit of whether it had occurred took place in the 22 years that he was at Fujitsu and Fujitsu had *“got to trust that they follow the process”*;<sup>38</sup>
- 55.2.3. There was *“no approved and auditable tool that was operationally good enough for them to use”*, and as the system did not record individual user access, no audit was possible;<sup>39</sup>
- 55.2.4. Other than locks and keys on the building and what was said to be frequent or more frequent security checks, the people in third line support had unrestricted and unaudited access to post office counter PCs;<sup>40</sup>
- 55.2.5. There was no system-wide retrospective audit done to ensure that changes made using the Operation Change Proposals (“OCP”) system or otherwise were monitored for errors, regression or unintended consequences.<sup>41</sup>

56. On the second of these points, see for example:

- 56.1. Anne Chambers’ evidence that she did not know whether there was a process in place to ensure that certain types of information were always reported to POL<sup>42</sup> (and the absence of any other evidence from Fujitsu, whether from the Management Support Unit (“MSU”) or otherwise, that there was).

56.2. Steve Parker’s evidence that:

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<sup>35</sup> T 2/5/23 [62:4-63:7]

<sup>36</sup> T 2/5/23 [142:14-143:12]

<sup>37</sup> T 10/5/23 [49:20-50:9]

<sup>38</sup> T 10/5/23 [79:23-82:16]

<sup>39</sup> T 10/5/23 [91:10-92:19]

<sup>40</sup> T 10/5/23 [98:18-99:4]

<sup>41</sup> T 10/5/23 [106:23-107:13]

<sup>42</sup> T 2/5/23 [150:7-10]

- 56.2.1. KELs were not accessible to POL;<sup>43</sup>
- 56.2.2. Whilst he expected that a problem with serious consequences for Postmasters would have been communicated to POL in order to be passed out to all Postmasters who were using Horizon, he was unaware of any system being in place to ensure that that occurred, and did not know how the service managers who would have been responsible for passing that on to POL recorded that sort of information.<sup>44</sup>
57. POL was to a large extent dependent on the information provided to it by Fujitsu. Fujitsu for its part was, at best, lax and, at worst, seriously remiss in ensuring that POL was kept fully and properly informed. The result is that, to a significant extent, POL did not have a full and clear view of the performance of the Horizon system and of the true nature of the difficulties being faced by Postmasters, and had nothing like the overview which was available to Fujitsu.
58. The extent to which POL relied on information provided to it by Fujitsu, and the dangers of failing to challenge it or seek further information, were most clearly demonstrated in Mr Ismay's evidence, in particular in relation to his testimony concerning what has come to be known as the Ismay Report dated 2 August 2010.<sup>45</sup> Mr Ismay accepted, amongst other things, that:
- 58.1. He was only asked (by Dave Smith, then Managing Director of POL) to include reasons that gave reassurance i.e. "*to present one side of the coin*" and that he was not given the task of establishing what allegations had been made about Horizon and investigating them;<sup>46</sup>
- 58.2. He relied on what others had told him – including Gareth Jenkins – and that he should have made it clear that the report included assertions which he had not tested during the course of collating the report;<sup>47</sup>
- 58.3. Similarly, he accepted that the evidence in his witness statement (para 39), to the effect that the report was "*a summary of existing conclusions*" was not recorded in the report itself<sup>48</sup> and that the report's own description of it being an "*objective, internal review*" was inaccurate.<sup>49</sup>
59. This is obviously highly unsatisfactory and Mr Ismay's own candid acceptance that he ought to have gone about things differently is a conclusion which the Inquiry will undoubtedly share. POL does not seek to excuse the many errors of judgment that were made in the commissioning and preparation of the Ismay Report.

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<sup>43</sup> T 10/5/23 [50:10-11]

<sup>44</sup> T 10/5/23 [141:5-142:2]

<sup>45</sup> POL00026572

<sup>46</sup> T 11/5/23 [104:4 – 104:23]

<sup>47</sup> T 11/5/23 [107:8 – 108:13]

<sup>48</sup> T 11/5/23 [109:2 – 109:20]

<sup>49</sup> T 11/5/23 [110:18 – 110:24]

60. That said, it is submitted that the Inquiry should not conclude that, when Mr Ismay was preparing the Ismay Report, he (or POL) believed that he was presenting a report which was either materially inaccurate or incomplete. There is no evidence that POL generally, or Mr Ismay specifically, were trying to cover up what was known, or even suspected, about genuine problems with Horizon. POL's view, largely based on Fujitsu's assurances, was that the allegations made about Horizon were misconceived and that there were no legitimate criticisms to be made of Horizon.
61. POL accepts that, for its part, it could and should have been stricter about insisting that Fujitsu established clear procedures concerning communication and provided full, accurate and regular reporting to POL. Equally, it could be said that POL ought to have pressed Fujitsu harder when issues arose. However, that does not alter the fact that during the relevant period POL did not have a full awareness of the fact or extent of the problems being experienced; and nor does it detract from the fact that such matters were the primary responsibility of Fujitsu.
62. On the particular issue of knowledge in the context of OCPs and OCRs knowledge, POL notes:
- 62.1. Mr Roll's oral evidence to the Inquiry that whilst at the time of giving evidence in the GLO he believed that formal consent from POL was required, he subsequently saw some documentation that indicated that there were times when POL was not informed, namely, a statement from Mr Peach that SSC were not to inform POL of a particular item;<sup>50</sup> as against
- 62.2. the Customer Service Operational Change Procedure (written by Mr Peach) which provided that all OCRs where the data to be changed had a financial impact on POL had to be approved by a senior POL manager;<sup>51</sup> and
- 62.3. Mr Peach's evidence that OCPs could only be done with the agreement of the Postmaster, POL and (Fujitsu) Customer Service.<sup>52</sup>
63. The Inquiry will obviously reach its own view on the extent to which Mr Roll's evidence should be accepted generally, having regard to the other evidence it has heard, but in this context POL notes that Mr Roll's specific allegation against Mr Peach was not put to him in questioning by the Inquiry.
64. A separate, but related issue, concerns the position where POL *was* aware of the alteration of a branch's accounts by Fujitsu. Anne Chambers' evidence was that she was aware that on some occasions personnel in POL had known that accounts in a branch had been altered and that someone in POL took the deliberate decision not to inform the relevant Postmaster of this fact.<sup>53</sup> This is obviously a matter of potentially serious concern.

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<sup>50</sup> T 9/3/23 [86 :25 – 88:5]

<sup>51</sup> POL00029282, internal p.23.

<sup>52</sup> T 15/5/23 [43 :12 – 44 :7]

<sup>53</sup> T 2/5/23 [207:20 - 207:24] & T 3/5/23 [28:9 – 31:8]



65. POL does suggest, however, that some care needs to be taken with that evidence since:
- 65.1. Mrs Chambers did not provide any details of who was responsible for this, or when;
  - 65.2. No such allegation has, at least as yet, been put to any past or present POL employee;
  - 65.3. While Mrs Chambers alleged secretiveness on POL's part (which, if accurate, was plainly inappropriate), there is no suggestion that the change to the branch accounts was anything other than corrective i.e. Fujitsu and POL were doing what needed to be done albeit not being as open about that as they should have been; and
  - 65.4. There plainly was no orchestrated campaign of secrecy since Postmasters were frequently told of the fact of system errors (e.g. by Mrs Chambers herself if she had cause to speak to them).

**(5) TRAINING**

*(i) Phase 1 evidence*

66. POL is conscious that during Phase 1 a number of Postmasters told the Inquiry that the initial training on Horizon provided to them was inadequate.
67. POL is sympathetic to the position of any Postmaster who genuinely felt that they were not given sufficient training. The Inquiry will understand that POL faced a considerable challenge in ensuring that the varied requirements of each Postmaster were met: some individuals were immediately comfortable with the requirements of computerisation and others found the move more difficult. The challenges in designing training courses which met this range of needs were significant. That is why follow-up training was available to those who sought it.
68. However, for the avoidance of any doubt, POL does not accept the characterisation of that evidence (as put forward by Howe & Co<sup>54</sup>) that the evidence as to training which was heard during Phase 1 was "unchallenged" by POL, and therefore accepted in every case. It would not have been appropriate (or indeed possible) to challenge that evidence during the Phase 1 hearings. POL's approach to the human impact hearings was that it was an opportunity for the witnesses to have their say, and for POL to listen to their grievances, and it would not have been feasible to submit Rule 10 questions in circumstances where a large proportion of the human impact statements were provided very shortly before or even on the day of the hearings, such that POL would not have had the opportunity to review any records held for that Postmaster. Ultimately, it is for the Inquiry to decide what weight to ascribe to any particular piece of evidence based on the whole body of evidence it has received. In this context POL would respectfully remind the Inquiry of the principles in *Gestmin* as set out in its Phase 2 closing submissions.

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<sup>54</sup> T 20/01/23 [55:22 - 57:5]

(ii) *Development of the training programme*

69. Three principal entities were involved in developing training for end-users of Legacy Horizon and delivering that training during the national roll out:
- 69.1. Fujitsu;
  - 69.2. Knowledgepool;<sup>55</sup> and
  - 69.3. POL.
70. Fujitsu were responsible for, among other things, the design of training events, the development of training materials (day to day and maintenance), the delivery of training to delegates and trainers, the communication of training activity and the management of training processes.
71. Knowledgepool was a sub-contractor selected by Fujitsu to design, develop, deliver and manage the Training and User Awareness Programme.
72. POL's role was to consider and approve Fujitsu's training proposals and processes, monitor and review performance, attend regular training meetings and identify improvements to training services as part of the Contractor's quality review.
73. In relation to the roll-out of HNG-X, Fujitsu was to supply training systems and documents for the purpose of training POL employees. POL's responsibilities included the provision of all training for its employees, agents, contractors and sub-contractors as well as the production of all training material required in connection with any new services and applications.
74. The Inquiry has now heard from many of the individuals who were responsible for delivering this training and it was clear in the main that they were conscientious individuals who were doing their best to provide thorough training and that any inadequacies were by no means universal.
75. The witness evidence sets out the training that was provided for the roll-out of Legacy Horizon:
- 75.1. All users were given the opportunity to attend a local awareness event in the weeks before their migration to Horizon, which typically lasted two hours and were held after offices closed and in suitable locations.<sup>56</sup>
  - 75.2. A few days before the "go-live" date for each office, staff attended a basic classroom course using off-line Horizon terminals for one day, which concentrated on the point-of-sale functions. Training was delivered by Knowledge Pool. Branch managers and Postmasters attended a second day to learn about stock control and financial accounting.<sup>57</sup>

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<sup>55</sup> Which formerly traded as Peritas Limited from 1992 to 1998 and ICL Training Services Limited from 1998 to 1998.

<sup>56</sup> Witness statement of Donald Grey, para 8a.

<sup>57</sup> Witness statement of Donald Grey, para 8a-8b.

- 75.3. Remedial events were arranged for those who, in the opinion of the trainer, did not meet the required standard during the initial training.<sup>58</sup>
- 75.4. On the resignation of a Postmaster, training of the incoming Postmaster on Horizon was incorporated into the initial on-site training given to all newly appointed Postmasters. This was normally for one week.<sup>59</sup>
- 75.5. The training system was built around the needs of potential users as identified in the initial Training Needs Analysis. Feedback was collected at each training session and, where appropriate, incorporated into future events. Training had to encompass a wide range of ages, abilities and backgrounds.<sup>60</sup>
76. POL accepts that there were some early concerns expressed about the sufficiency of the training provided. This was taken seriously by POL and led to Acceptance Incidence 218 being raised on 19 May 1999.<sup>61</sup>
77. Mr Grayston gave evidence<sup>62</sup> that a rectification plan was introduced to address AI218, which focused on improving training for office staff and support staff. The rectification plan<sup>63</sup> included:
- 77.1. changes to ensure training was provided to POL Retail Network Managers;
  - 77.2. the introduction of pre-assessment training (that focused on improving office manager training success rates);
  - 77.3. improved processes for monitoring and reporting training delivery;
  - 77.4. ways of encouraging the use of the Horizon training mode facility; and
  - 77.5. a process for managing office managers who did not demonstrate the required level of competency.
78. Evidence was also heard in Phase 3 on the extent to which feedback on training was considered and implemented in the training course during the roll-out of Horizon. The Inquiry heard evidence on this issue as follows:
- 78.1. Mr Rollason worked on the training course with Fujitsu and helped to develop the user awareness events. His view was that the Inquiry is "*barking up the wrong tree*" by trying to blame the initial training for errors in Horizon. Mr Rollason's evidence was that the training was tested and tested and "*worked perfectly*" from 1997. He said the problem was that Horizon was glitchy.<sup>64</sup>
  - 78.2. Mr McNiven gave oral evidence that feedback from Postmasters on the training course was considered by POL in the context of AI 218. He said that Postmasters were involved and that there were two open sessions with end-users of Horizon who participated in the "live trial" to gather feedback. He noted that there were two sessions in Bristol, which he personally attended, and two sessions in the

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<sup>58</sup> Witness statement of Donald Grey, para 8d.

<sup>59</sup> Witness statement of Donald Grey, para 8e.

<sup>60</sup> Witness statement of Donald Grey, para 8h.

<sup>61</sup> POL00028357, p.4.

<sup>62</sup> Witness statement of Stephen Grayston, para 42.

<sup>63</sup> Referenced at page 1 of FUJ00079176.

<sup>64</sup> Paragraph 77



north-east, one of which he personally attended and the other of which was attended by Mr David Miller (whom he reported to). Mr McNiven acknowledged that Postmasters "had a hard time" because, at that stage of live trial, they were unhappy with their experience – notably the length of time dedicated to training and the training on balancing – and this was relayed to POL.<sup>65</sup>

78.3. Mr Fletcher gave evidence in his witness statement that feedback from the training course suggested that there was not enough time set aside for training and that there was insufficient information on balancing (though he noted that he thought there was sufficient time for most delegates).<sup>66</sup>

79. There was also evidence that POL made changes to training after the rollout of Legacy Horizon as a result of Postmaster feedback:

79.1. Mr McNiven gave oral evidence that feedback from Postmasters on the training course was considered by POL in the context of addressing AI 218 (which had raised concerns with the time being made available by the training schedule proposed by Fujitsu). His evidence was that:

79.1.1. Feedback received from Postmasters during the open sessions referred to above informed POL's negotiations with Fujitsu regarding improvements to the training course. POL noted that they were not happy with the training product; and it had to be modified and improved. Those debates were *"going on a very regular basis with [Fujitsu] from [April 1999] up to the revised training package that they produced"*.<sup>67</sup>

79.2. Mr Grey gave evidence that POL took steps to address the criticisms on training set out in the Christmas Horizon Research Report (in particular, criticisms of there being insufficient time provided for training and inadequate training on balancing). He gave evidence that the following measures were taken to address this feedback:

79.2.1. moving to provide a user awareness event two-to-four weeks before training itself;

79.2.2. diverting more staff to support offices during the rollout period; and

79.2.3. introducing a "balancing guide" to support Postmasters on balancing.<sup>68</sup>

79.3. Furthermore, Mr Grey noted that POL took the score on the ease of balancing during the live trial from 19% to 90% within 12 months. He also stated that POL took on board the recommendation in the Christmas Horizon Report that time should be set aside to consider feedback from Postmasters.<sup>69</sup>

80. In addition, evidence was heard on changes and improvements made to training unrelated to feedback from Postmasters. For example, Mr Bansal gave evidence that:

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<sup>65</sup> T 10/01/23 68:15-81:24

<sup>66</sup> T 10/01/23 105:3-113:3

<sup>67</sup> T 10/01/23 73:9-75:4

<sup>68</sup> T 19/01/23 13:1-13:15

<sup>69</sup> T 19/01/23 13:1-13:15

80.1. The rollout of Legacy Horizon was put on hold for around a year and the initial training materials drafted by Knowledgepool were replaced as the old materials possibly became obsolete or enhanced following developments from the system that came a year later.<sup>70</sup>

80.2. Over time, POL introduced their own test teams and within those POL teams have been Postmasters.<sup>71</sup>

81. Having regard to the above evidence, POL submits that the training provided was reasonable and adequate in all the circumstances, and, in particular, that it took on board, and responded to, Postmaster feedback during the roll-out, such that improvements were made in the provision of training during the relevant period.

**(5) AUDIT DATA**

82. There has been considerable confusion and conflicting accounts (both during the Horizon Issues Trial (“HIT”) and evidence before the Inquiry) as to what data was available to both POL and Fujitsu which could be referred to when an investigation was necessary.

83. The point is important since one of Fraser J’s criticisms of POL was that it had access to keystroke data but chose not to make use of that access: the implication is that in every case where a discrepancy arose POL or Fujitsu could, had they chosen to, ascertain precisely what had happened in the branch and thereby conclusively determined whether Horizon, or the Postmaster, was responsible for a discrepancy. As set out below, that does not seem to have been the case.

84. “Transactions” are defined in Schedule A01 of the Codified Agreement as *“a recorded and auditable instance of a business activity, involving service provision or Stock movement across organisational or service boundaries”*. “Events” were defined as *“a recorded and auditable instance of business administration activity, such as the registration of a new User, or the production of a report.”*<sup>72</sup>

*Transfer and storage of audit data*

85. The way in which audit data was transferred and stored differs between Legacy Horizon and Horizon Online. The position was summarised by Jason Coyne, expert for the claimant-Postmasters in the GLO in his first report (“Coyne1”) §§4.23-4.47:<sup>73</sup>

85.1. From 1996-2010, Horizon was designed to store all data locally on the branch counter’s hard disk. That data would then be replicated to the hard disks of other counters in the branch and then passed on to the Horizon data centre where it was stored in the “CS Messagestore”. Once the data reached the Horizon data centre,

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<sup>70</sup> Witness statement of Steve Bansal, para 9.

<sup>71</sup> Witness statement of Steve Bansal, para 20.

<sup>72</sup> POL00028215

<sup>73</sup> POL00000410

a further copy was taken by the Audit Agent, who wrote that data to an audit file where it was available for retrieval for up to 7 years.

- 85.2. After the migration to Horizon Online, transactional data was stored in the data centre rather than on branch counters. Data reaches the data centre as follows:
- 85.2.1. When transactions are carried out locally on the Horizon Online counters, a “Basket” is built up during a customer session, whose monetary sum must be zero (i.e. the services and money paid for them in settlement by the customer should balance). Each transaction should result in a Basket entry consisting of one or more accounting lines.
- 85.2.2. At the end of a customer session, when the Basket has been completed, the Basket is sent to the online branch database (the “BRDB”) as a Branch Access Layer (“BAL”) message where the BAL processes the message and all the accounting lines are recorded and committed to the BRDB.
- 85.2.3. The BRDB contains a record of all branch transactions and event data captured in the branch. Each day the contents of the database table in the BRDB is copied from the BRDB to a number of serial files. The files are then copied to the audit system nightly where they are sealed digitally and held for 7 years,<sup>74</sup> during which time they may be retrieved and filtered to produce the relevant audit data for a particular branch.

86. Audit data therefore records “transaction data” entered at the branch. However, there appears to be some confusion as to the extent to which audit data records all activity which can affect branch accounts.

#### *Integrity of audit data*

87. It is uncontroversial that there were a series of measures in place to ensure the integrity of the audit data – i.e. that the data, once transferred from the counter and stored in the audit store, could not be altered.
88. However, as set out in §5.57 of Coyne<sup>75</sup> the audit data reflects branch counter data, so it is possible that audit data could reflect erroneous information. For example, if a counter error caused a transaction item to be duplicated prior to its submission to the database, then the audit log would itself contain this error. In other words, the data is not itself audited prior to being saved in the audit store.

#### *“Keystroke” data*

89. Fraser J defined “audit data” in the Horizon Issues Judgment (“HIJ”) at §906 as:
- “a complete and accurate record of everything that has occurred, which in the context of Horizon means including a full record of keystrokes used by a SPM (or assistant) in the branch. This accurate record is kept in what is called the audit store. This is a secure place for the keeping of such data.”*

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<sup>74</sup> POL sent data retention instructions to Fujitsu in late 2014 as a result of which Fujitsu currently holds transaction and event data from October 2007 onwards.

<sup>75</sup> POL00028988



90. Fraser J concluded that the audit data includes “a full record of keystrokes used by a SPM or assistant in the branch”. However, this appears to confuse audit data (which contains a record of transactions entered at the counter) with an idea of “keystroke data”, seemingly used by Fraser J to mean a record of each key pressed by a Postmaster in completing a transaction.
91. The phrase “keystroke activity”, in the context of data available to POL, appears to have originated from Mrs Mather’s witness statement, prepared for the purposes of the GLO, where she stated that Credence records all keystroke activity. This was incorrect:
- Her statement was corrected under cross-examination during the HIT, where she said in response to a question from Fraser J (transcript day 6, pg. 172)<sup>76</sup> that “I didn’t realise that keystroke activity actually refers to these ARQ reports where we do the transactional data on Credence; that’s what we’re looking at, the sales and non-sales so I meant transactional data.”
  - She also clarified that her understanding of “keystroke activity” at the time she made her statement was “transactional data, sales and non-sales. So for every transaction that a postmaster – for example somebody paid their bill, we would see that level of detail and how the transaction was finished, either to cash, cheque, debit card. So it’s the transactional data over the Horizon counter.”
  - Her evidence was ultimately therefore that Credence records transactional data performed in a branch, but not “keystroke activity”.
  - It may be that Fraser J understood (mistakenly) from Mrs Mather’s statement that “keystroke activity actually refers to these ARQ reports” that audit data contained a record of all keystrokes pressed by a postmaster at a counter.
92. The same point was confirmed by Anne Chambers in her evidence to the Inquiry, in the following exchange:
- “Q: It’s been suggested by some witnesses that the ARQ data equated to data that recorded every keystroke made by a subpostmaster in branch?  
A: that was never captured.  
Q: simplifying matters, was it therefore the data when a subpostmaster committed what they had done to the stack, essentially?  
A: Yes, because the messages got written to the message store, the transaction messages were written to the message store when the basket was settled.”<sup>77</sup>*
93. Instead, “keystroke data” may refer to records downloaded “from the counter” (the “POC log”), which *do* seem to contain a record of “buttons” pressed by Postmasters, but not every individual key pressed.
94. In her evidence to the Inquiry on 3 May, Anne Chambers clarified that the logs did not contain a record of every single keystroke pressed by a Postmaster, but that, at least for Horizon Online, they did allow Fujitsu to see the button that was pressed by a Postmaster in order to move between screens (i.e. the tile on the touchpad or the

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<sup>76</sup> POL00004071

<sup>77</sup> T 2/5/23 [160:14 – 160:20]

associated key on the keyboard), such that *“the button presses or the virtual button presses are recorded but not every single keystroke”*. She further explained that *“we can’t see here that a name has been typed in or... then deleted or anything like that.”*

- 94.1. She was then asked whether it would be possible to tell whether a Postmaster had keyed in £250 or £2,500, if the screen was showing that £2,500 of cash had come in, but the Postmaster claimed that he only keyed in £250. She said this would not be possible and that level of detail of precisely what the Postmaster had keyed was not recorded.
- 94.2. According to Anne Chambers’ evidence, the “keystrokes” which appeared on the counter logs would be *“any of the buttons that controlled the navigation around the system or where the postmaster was given a choice and had to choose “yes” or “no””, and that “you could see the order of events” and the pathway that a Postmaster took.*<sup>78</sup>
95. If Mrs Chambers’ evidence is correct (and it is submitted that she gave the most confident account of these matters that the Inquiry has heard)<sup>79</sup> it would seem to follow that some witnesses have been talking at cross purposes about the nature of keystroke data.
96. The point is of some significance since it means that, contrary to the view expressed by Fraser J in the HIJ, it would never have been possible for an investigation to have ascertained each and every keystroke which a postmaster had pressed: the criticism against POL for failing to do just that is therefore unfounded. The true position, as Mrs Chambers explained it, is that those investigating discrepancies could not be absolutely confident of what had happened in the branch. They were, at least in some circumstances, reliant on being told what had happened and could then try to make sense of that based on the information that *was* available. But it has never been the case that the complete history of every keystroke pressed could be reproduced.

### Miscellaneous

97. The end of Phase 3 effectively concludes the Inquiry’s consideration of the Horizon system itself (as distinct from how evidence in relation to it was treated in criminal and/or civil proceedings etc.).<sup>80</sup> The evidence to date has concerned its development, its operation and the various procedures which were implemented by both POL and Fujitsu to deal with, amongst other things, training and dispute resolution.

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<sup>78</sup> T 3/5/23 [1:9 -8:3]

<sup>79</sup> POL notes in this context the evidence of Mr Parker, who suggested that for a period keystroke logging did take place, it having been put in about the time of network banking (c.2006) and probably came out again at HNG-X (2010), although he was not positive about that. He was unable to recall why it came out. T10/5/23 [133:16-134:16]

<sup>80</sup> Subject, of course, to the Inquiry deciding to revisit any of the issues covered in Phases 2 and 3 in later phases.

98. No evidence has been put before the Inquiry on the issue of whether, as a matter of fact, any particular bug caused identifiable loss to a specific Postmaster. Nor does that issue form any part of the Inquiry's Completed List of Issues. POL assumes that this is because the Inquiry does not consider it necessary to reach any independent conclusion on this issue in order to fulfil its Terms of Reference.
99. Having regard to the Chair's statement that he would consider the findings of fact by Fraser J in his Common Issues and Horizon Issues judgments and the conclusions which he reached based upon those findings as "*established and incontrovertible*", it follows that the following findings by Fraser J in the HIJ on this issue are established:
- 99.1. It was possible for bugs, errors or defects to cause apparent or alleged discrepancies in branch accounts [HIJ/968];
- 99.2. Not only was there this potential but it actually had happened and on numerous occasions [HIJ/969] (although it should be noted that this is not a finding that any particular and identified loss was non-transient i.e. loss that was not made good by POL through the Transaction Correction process: for the purposes of the HIJ Fraser J made no findings at that level of detail);
- 99.3. There was a material risk that a shortfall in a branch's accounts was caused by the Horizon system from 2000 to 2017 [HIJ/978].
100. Against this background POL notes that it was suggested to Mr Ismay that it is now *known* that Horizon was significantly compromised by a series of bugs which had the effect of causing accounting discrepancies which were wrongly attributed to the criminal actions of Postmasters.<sup>81</sup> In the absence of any evidence before the Inquiry going to causation, still less any finding by the Inquiry to that effect, it is respectfully submitted that care must be taken to ensure that findings of Fraser J are accurately reflected, both during the course of the hearings and in the Inquiry's findings in due course.

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<sup>81</sup> T 11/5/23 [177:23 – 178:12]