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Witness Name: Ronald John Warmington

Statement No.:WITN01050200

Dated: 10 June 2024

POST OFFICE HORIZON IT INQUIRY

SECOND (SUPPLEMENTAL) WITNESS STATEMENT OF RONALD JOHN WARMINGTON

I, Ronald John Warmington, will say as follows:

INTRODUCTION

1. I am currently a Director, and the Chairman, of Second Sight Investigations Ltd ("SSIL") and I have also served as a Director, since 1 April 2010, of its now largely dormant predecessor company, Second Sight Support Services Ltd ("SSSSL"). SSSSL was appointed, in June of 2012, by Post Office Limited ("POL") to carry out Horizon-related investigative work (SSIL was incorporated much later, on 31 May 2021). For ease, throughout this Witness Statement, I shall refer to SSSSL as Second Sight.

2. I make this, my Second Statement, for the assistance of the Post Office Horizon IT Inquiry (the "**Inquiry**"), as a supplement to my First Witness Statement, in order to clarify, and to explain in a little further detail, some points/issues that seem to me to merit clarification. These are: (1) the nature of suspense accounts; (2) my contention

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that Horizon was not, in respect of several products and processes, what can properly be called a 'double entry accounting system'; and (3) some further observations regarding ATM-related shortfalls. I have not received legal assistance in the drafting of this statement (Freeths Solicitors assisted me with my first witness statement).

3. **SUSPENSE ACCOUNTS:** I have heard the Inquiry many times seeking clarification in respect of concerns, that were first expressed by Second Sight that have been repeated by others and dismissed by Post Office, about Post Office's SUSPENSE ACCOUNTS.

4. I hope the following notes will assist the Inquiry. I realise that the Inquiry's Leading Counsel has already completely understood what I am about to describe.

5. First of all it is necessary to understand that there have been *two types* of suspense accounts. The first type are no longer (since 2006) in existence. These were the BRANCH SUSPENSE ACCOUNTS. They were available (to those SPMs that knew of the functionality) to temporarily hold shortfalls (or, far less frequently, to hold surpluses) that had been caused by errors the causes of which the SPMs had been unable to establish and that they had therefore been unable to correct. The removal of that functionality, as a component of the 'Impact Project', while at a stroke curing a major headache for POL, triggered profound difficulties for some SPMs, leaving many of them with no realistic alternative, when faced with shortfalls that they could neither understand nor make good, but to falsify their branches' books in order to 'buy time'.

6. The second type of suspense account, about which there seems still to exist some confusion, are POL'S OWN SUSPENSE ACCOUNTS. When I first asked POL

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about these (in pursuit of an answer to a question posed by Sir Anthony Hooper in a Mediation Working Group meeting), the answer that came back, from Angela van den Bogerd, was: "*we don't have any suspense accounts*". I explained that POL would have suspense accounts, probably one for each client relationship.

7. I remember that it took an inordinate amount of time to get POL's representatives at the Mediation Scheme's Working Group meetings to understand this. It proved necessary to send very detailed emails before the penny eventually dropped and POL even started to understand what I was talking about.

8. I formed an hypothesis, which I explained verbally and then spelled out in detail in writing, that some amounts that ought to have been returned to SPMs might have been credited to POL's own Profit and Loss account.

9. It might be best if I give an example of the sort of situation that might lead to that having happened. So, by way of example:

a. A customer goes into a branch and spends £1,000 on Premium Bonds using a debit card to pay for them. If there is, at the moment of the transaction, a transient communications blip, the customer could walk out with those Premium Bonds but without actually having been charged for them because one side of the transaction went through (the sale of the Premium Bonds went into Horizon) but the other side (the debit card transaction that was meant to have been processed, through the LiNK system, to debit the customer's bank account) had (at that stage unbeknown to the customer or to the branch) failed. That would be an

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example of what we (in Second Sight) referred to (and POL in due course also now refers to) as a 'one-sided transaction'.

b. That scenario would mean that the customer would then be holding real Premium Bonds for which he or she had never paid. There was in fact a real example of this happening, back in 2007, when an honest and diligent customer wrote to The Sunday Times (her letter having been published in its 'Question of Money' column on January 28th, 2007) about a similar type of windfall, albeit that one was probably caused by the customer's cheque having been mutilated in one of POL's cheque clearing machines. See my email, dated 13th February 2013, that mentions this case **[WITN01050201]**

c. It is clear to me (one might suggest that this is inescapable logic) that, when a customer gets something for nothing, he or she might give way to the temptation to keep quiet about it - or maybe even he or she would not even have noticed the error in the first place, particularly if the amounts were - to them - relatively small. If my logic is correct, more customers will notice - and then complain about - having received nothing for something than there will be customers who report (as did the lady who wrote to The Sunday Times) having received something for nothing.

d. Clearly, when a customer gets something for nothing, that will (unless the customer's bank, or POL, absorbs the loss) create a shortfall in the branch, because the customer has something, and POL hasn't received the payment for it. POL, centrally, will be the first to find that out… most

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likely the next day… and it will then send a Transaction Correction (a 'TC') 'Invoice' to the branch in order to recover the missing money.

e. When that TC is accepted by the branch, it will generate, in the example we are using here, a £1,000 shortfall in that branch's books.

f. That shortfall will only be zeroed out in the branch's books IF the customer lets his bank know that he's received something for nothing… and IF that bank debits his account and sends the £1,000 to POL… AND AS LONG AS POL THEN ASSOCIATES THAT INCOMING £1,000 WITH THE RIGHT BRANCH IN ORDER TO CORRECT THE SITUATION… by sending a 'Credit Note' TC to that branch.

g. So… in summary, POL's (central) books in Chesterfield will have briefly shown a £1,000 shortfall, when the customer's bank failed to send that amount to POL. And POL will have immediately then onward charged its £1,000 shortfall to the branch by sending it a TC 'Invoice', thereby transferring its shortfall back to the branch.

h. It should now be clear that the branch is not going to get its SPM's £1,000 back until (and unless) the ultimate customer who has benefitted from the windfall:

    i. notices that he's not been charged (this might be months later)… and

    ii. then notifies/confesses to his bank that he has received something for nothing… and then

    iii. that bank client of POL then contacts POL to tell them about it… and

    iv. then it pays over to POL the £1,000… and then

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v. POL correctly (and this might be many months later, during which time *the SPM has had to fund the shortfall*) matches up its incoming £1,000 with the original error… and finally if…

vi. POL then sends out a Credit TC to the branch to correct (i.e. to remove) the shortfall that it had generated for that branch when it sent out the TC Invoice.

It ought to be obvious that any of steps i. to vi. can be delayed, or they can fail to happen at all, in which case the end result will be that the SPM will have paid for the customer's Premium Bonds and either the customer, or his bank, or POL will have benefitted by keeping the £1,000. Of those three possibilities, the least likely, in my opinion, would be for the customer's bank to have benefitted.

In that example scenario, both the customer's bank, and POL, would have put the £1,000 difference into a 'client suspense account', in their own company's books, where it would sit, as an 'unreconciled item', until the root cause of that difference - between the two companies' books - was identified and corrected.

10. If the process fails at point v. above (i.e. having received the £1,000 from the customer's bank, POL's people in Chesterfield have failed to match it to the one-sided transaction and therefore to the branch that suffered the shortfall) then that amount will remain sitting in POL's client suspense account (i.e. the one for that customer's bank) for three years, and then, having been subsumed in the residual balance in that client suspense account, it will be credited to POL's P&L Account, thereby increasing its profits.

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11. It follows that any amount that remains sitting, as a component of the balances in any of POL's client suspense accounts, will always, in truth. properly be owned by, and therefore be properly returnable to, one of only four potential owners. Those four are:

1) **POL itself**
2) **One of POL's CUSTOMERS**
3) **One of POL's CLIENTS (such as HMRC, Camelot, Royal Mail, Bank of Ireland, Santander, the DVLA, NS&I, etc, etc.)**
4) **An SPM**

12. The bottom line on all of that is that my colleagues and I formed an hypothesis, that we wished to test (and hopefully to disprove), that some of the UNRECONCILED net credits that POL had every year (after three years) credited to its own P&L Account might have included amounts that, had POL been able to establish to whom they truly belonged, ought to have been returned to SPMs. We later learned, from POL when it wrote to us about its Suspense Accounts, that it had released, during the year 2010/2011, gross unresolved credits that aggregated to £612,000.

13. Had Second Sight been allowed to examine POL's suspense accounts, we would have:

    a. examined to whom entries that POL HAD been able to clear had been returned to (i.e. over time, what percentage of cleared items were found to be due to each of the four parties listed above);

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b. been able to estimate, based on the percentages derived in step (a), broadly how much of the remaining, UNRECONCILED, balances might, had they been bottomed out, have been found to be due back to SPMs. If it turned out that that figure was zero, then we would have disproved our hypothesis;

c. focussed on the very large balances in the Santander, ATM, and Camelot suspense accounts, in order to gauge the real-life impact of those large transient balances on SPMs. For example. If component entries in POL's ATM-related suspense account meant that SPMs had needed to somehow *fund* their apparent shortfalls during the weeks - or months - that it took for the related suspense account entries to be investigated and resolved, then had that caused such grief that some of them had, post-2006 (i.e. after the local branch suspense accounts were removed as part of the 'Impact' project), decided to falsify their branches' declared cash balances in order to 'buy time' to try to find out what had caused their shortages?; and…

d. taken the examples that had surfaced during the Mediation Scheme (e.g. in case M082, Mr Peter HOLLOWAY… and the double-paid customer Income Tax bill), and chased those individual examples through POL's suspense accounts to test out (and hopefully to disprove) our hypothesis.

14. I have seen no evidence that those lines of enquiry were ever pursued by Post Office or by any of the accountants that it engaged to provide reassurance that Second

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Sight's suspicions, as to the possibility that Post Office had taken money that ought to have been returned to SPMs, were groundless.

15. Further to the above, it is my belief that it wasn't - generally - 'bugs' that will have caused the majority of the alleged disappearances of money, but rather it will have been, as POL itself has asserted: "*errors made at the counter*". I also contend that many of those errors will have been caused by preventable system and process design flaws.

16. I have also suggested (as, later, did Deloittes) the possibility that some of the shortfalls, for which SPMs have been held accountable, might have been fraudulently generated by 'Superusers' in Fujitsu sending shortfalls to victim branches and sending the aggregated credits as surpluses to branch SPMs with whom the perpetrators were colluding. The terrible consequence, if that really has happened (although there exists no evidence, of which I am aware, that this has happened), is that some of the victim SPMs would, if they had then hidden the (unaffordable) shortfalls, not only have committed the criminal offence of False Accounting, but they would have also, in effect, unwittingly colluded with the perpetrator(s) by hiding thefts where they themselves (i.e. the SPMs) were the victims.

17. **CAN HORIZON PROPERLY BE CLAIMED TO BE A 'DOUBLE-ENTRY' SYSTEM?:** I referred, in paragraphs 75 to 82 of my First Witness Statement, to Post Office's handling of Foreign Currency ("FX") transactions. We in Second Sight also referred, in many of our CRRs and in our 9th April 2015 Briefing Report - Part Two **[POL00029849]**, to the risks that processing Lottery, ATM and FX transaction posed

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for SPMs. It is relevant to note here that Detica also drew attention, in its October 2013 'Non Conformance' Report, to the materially increased risk of an SPM failing an audit where those products/services were being delivered. I should add that we, in Second Sight, had no knowledge of Detica's work, or of its report, until years later, well after the GLO had been concluded.

18. I submit here that one of the root causes of those materially increased risks was that those transactions *were not processed TRANSACTIONALLY* through the Horizon system. Instead, Lottery and ATM transactions were only entered into Horizon *IN AGGREGATE ON A DAILY BASIS*, and FX transactions were only processed, again *IN AGGREGATE, ONCE A WEEK*. That sort of bulk processing of blocks of transactions cannot properly be described as "*double-entry bookkeeping in the Horizon system*". I suggest that assurances that have for decades been given - and that have remained unchallenged - as to Horizon being "*a double-entry bookkeeping system*" may, therefore, be unfounded. What I am asserting here might also have some relevance to the categorisation of some shortfall cases as "*Horizon cases*" whereas others have been categorised as "*non-Horizon cases*". The significance of such categorisation is, it seems, that "*Horizon cases*" are now regarded as being: *inherently suspect* (because they were exposed to known, or as-yet-unknown, Horizon 'bugs'), whereas "*non-Horizon cases*" seem to have been regarded as somehow *inherently safe*. I do not believe such thinking to be sound. Indeed, I cannot see why losses that were caused by, or that appear to have been caused by, Lottery, ATM or FX transactions (or by any other products or services that were not TRANSACTIONALLY processed through Horizon), should be regarded as "*Horizon cases*" at all… given that those transactions were never processed (individually)

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through Horizon. I also suggest that, although it is correct to conclude that shortfalls that arose from Lottery, ATM and FX processing could not (of course) have been caused by *bugs in the Horizon software*, it is feasible that they *could* have been caused by bugs in the software deployed in the various front-end transaction processing systems that POL had 'bolted onto' Horizon (this was also referred to by Detica in paragraph 7.2.2. of its October 2013 Report **[POL00029677]** where they reported: "*difficulty in reconciling information from multiple transaction systems both in terms of timeliness, structure and access*").

19. In summary, it seems to have been accepted that those prosecutions that have relied upon Horizon data are all *unsafe*, whereas those that were based upon data derived from other sources (including figures supplied by POL's clients such as the DWP, Bank of Ireland, Santander, Royal Mail, etc.) were, or were more likely to have been, *safe*. I suggest that *they were/are not safe,* and that the acceptance that they were all safe is not only founded on an unproven premise, but on a premise that has never, to my knowledge, been tested.

20. **ATM SHORTFALLS:** I would like to elaborate a little on the ATM-related risks mentioned in paragraph 17. The point that I feel needs to be stressed is that the *sheer magnitude* of many ATM-related shortfalls meant that they were highly material to the impacted SPMs. We drew attention to this in paragraph 7.3 of our Briefing Report - Part Two, where we said that more than 20% of the Applications to the Mediation Scheme had referred to ATM shortfalls and that thirteen of those ATM-related shortages exceeded £20,000, six exceeded £60,000 and one exceeded £80,000. As far as I am aware, very few witnesses, aside from Mr Alasdair Cameron, have even

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recognised, let alone acknowledged in their testimony, that shortfalls that were clearly "*immaterial*" to POL's staff, and to its external auditors, in the context of POL's books, would have been enormous (indeed life-changing) in the books of a branch.

21. We had also referred, in paragraph 2.18 of our Briefing Report - Part Two, to the fact that the unreconciled Bank of Ireland ATM-related Suspense Account balance, at the 2014 financial year-end, was £96 million. As far as I am now able to recall, Post Office asserted that no entry in that Suspense Account was more than six months old but that seemingly reassuring statement ignored the likelihood that some very large shortfalls will have remained uncorrected in branch accounts for some months… so that the impacted SPMs will have needed, in the meantime, to make good those shortfalls. Where they were unable to make good what would, in some cases, be shortfalls of tens of thousands of pounds, they may have fallen victim to the temptation to falsify their branches' accounts while 'waiting for something to turn up'.

<u>Statement of Truth</u>

I believe the content of this statement to be true.

GRO

Signed: ________________________

Dated: ___10th June 2024__________

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2.	POL00029677	Draft Report on Fraud and Non-conformance in the Post Office; Challenges and Recommendations	POL-0026159