

PRIVATE AND CONFIDENTIAL

Second Sight's Draft Part Two Mediation Briefing Report (the "Draft Report")**Appendix to Post Office letter dated 14 August 2014**

To be read in conjunction with the accompanying letter, the content of which is incorporated by reference.

Section / Paragraph in Draft Report	Post Office comment
General	<p>The lack of statistical information in the Draft Report makes it difficult for Post Office to understand how many Applicants have raised issues and whether those issues have been fully investigated. Post Office considers this an important omission from the Draft Report and could be misleading if an Applicant forms the view that an issue they have raised is more or less of a common issue than it actually is.</p> <p>For example, the Draft Report in several instances refers vaguely to 'Subpostmasters' generally, rather than 'Applicants' and contains no statistical data to give context or perspective. Nowhere does the Draft Report mention the number of Applicants in total compared to the number of Subpostmasters generally who have not complained to the Scheme or the number of Applicants to which a particular issue applies. Rather, it frequently refers to 'a number' or 'many' Subpostmasters raising concerns without quantifying these terms or being clear about whether the concerns have been investigated or whether they remain untested. In addition it is not clear whether, when referring to Subpostmasters generally the Draft Report is referring to Subpostmasters who are not Applicants.</p> <p>The Draft Report should clearly state, at each point, the precise source of information being relied on.</p>
Section 2	The Contract between Post Office and Subpostmasters
	<p>Second Sight is not qualified to comment on legal matters.</p> <p>Post Office has, on a number of occasions, made the point to Second Sight that their presentation of matters relating to the Subpostmaster contract suggests a fundamental lack of understanding of the nature of the relationship between Post Office and Subpostmasters. For clarity Post Office asks Second Sight to note the following points:</p> <ol style="list-style-type: none"> 1. The contract is an arms-length, commercial transaction between Post Office and each Subpostmaster. The concept of freedom of contract means that Subpostmasters can, ultimately, choose whether or not to enter the contract if they are not happy with its terms. 2. Post Office discusses variations to the contract with the NFSP on behalf of Subpostmasters. Indeed, in a network of several thousand Subpostmasters, it would be impractical (and potentially unfair to certain Subpostmasters) for the contract to be negotiated on an individual basis by each Subpostmaster before they become a Subpostmaster. 3. The risk allocation under the Contract is typical of and reasonably expected in

PRIVATE AND CONFIDENTIAL

	<p>contractual arrangements of this kind. It is a contract of agency. Agents (Subpostmasters), by definition, have custody and/or control over the principal's (Post Office's) assets and interests and are engaged by the principal in order to protect, safeguard and further the principal's interests on their behalf. In this case, Subpostmasters are necessarily responsible for ensuring the safe-keeping and proper accounting for the revenue generated for Post Office through the Subpostmaster network. Accordingly, the risk allocation in the Contract properly reflects the role the Subpostmaster plays, including the level of his or her control and responsibility for and trust placed in him or her by Post Office with respect to Post Office's assets. That allocation is in any event reflected in the general law e.g. in the form of the equitable duty of an agent to account to his or her principal. The Subpostmaster Contract therefore simply records the duties on Subpostmasters that are already present at common law.</p> <p>4. Thousands (and the vast majority) of Subpostmasters have not complained about the allocation of risk under the contract and have been signing up to it for two decades (and the same principles have applied for significantly longer). The issues raised in the Draft Report represent, at best, the views of some Applicants, being a very small proportion of Subpostmasters.</p> <p>5. Unless the Draft Report can substantiate any instance in which an Applicant's entry into the Contract was the subject of any undue influence, unconscionable conduct on the part of Post Office or any other 'unfair' circumstances, then that is the end of the matter. The contract is binding according to its terms. The concepts of fairness or bias are not relevant.</p> <p>6. It is common for standard-form contract booklets not to be signed by agents, but for the agent to sign another document to acknowledge receipt of the contract booklet before taking on their role. At law, a party need not sign a set of terms and conditions in order to be bound by them. It is perfectly acceptable for a party to sign one document that refers to terms and conditions in another document.</p> <p>For these reasons, Second Sight's lay comments on the Subpostmaster Contract will not assist Applicants and this section should be deleted entirely.</p> <p>Post Office will investigate any instance where Applicants allege that they were refused sight of a contract or were not given the opportunity to make themselves aware of the contents of the Contract on a case by case basis when presented with those cases.</p>
<p>Section 3</p>	<p>Automated Teller Machines (ATMs)</p>
	<p>It is noted that a number of the points below were raised by Post Office in its previous comments on this section of the Draft Report. These comments have not been reflected in the Draft Report which consequentially still contains material inaccuracies and errors.</p> <p>The Draft Report principally focuses on the situation whereby the amount of cash dispensed from an ATM as recorded on Horizon by an Applicant is different from the record kept by Bank of Ireland (BOI). Even if these accounts are (to use Second Sight's expression) 'out-of-sync' this would not cause a loss to the branch.</p> <p>The discrepancy between the two sets of accounts identified in the Draft Report would only arise because an Applicant inputs incorrect figures into the account on Horizon. Once the Horizon account is corrected (by way of a reconciliation against the BOI accounts), the Horizon account would match the amount of cash in the ATM (assuming no other error is present). Hence there would be no actual cash loss.</p> <p>This is a critical issue that is not addressed in the Draft Report despite being raised in Post Office's previous comments on this section. The section, as currently drafted, is likely to give Applicants the incorrect impression that the 'out-of-sync' issue could be the</p>

PRIVATE AND CONFIDENTIAL

	<p>cause of physical cash losses in their branch. This is not the case and such an impression is unwarranted based upon the facts.</p> <p>This section should be re-drafted where appropriate to make the above points clear.</p>
3.3	<p>As set out above, this paragraph is an example of one which contains no context in terms of statistical data, e.g. numbers of Applicants raising ATM issues that specifically relate to the matters addressed in the Draft Report.</p> <p>The Draft Report should state the number of Applicants affected, etc.</p>
3.4	<p>This paragraph refers to 'reports', but it is unclear what these 'reports' are, specifically, whether they are CQRs, Post Office investigation reports or something else. This should be made clear in the Report.</p> <p>Other ATMs referenced are those which relate to private arrangements with the retail business and not Post Office and therefore not operated through Horizon. As "Other ATMs" are not connected to an "Horizon or associated issue" the reference to "other ATMs" should be removed.</p>
3.5	<p>The comment in the Draft Report that asserts that the system of operating ATMs in Post Office's network is considered to be '...a more complex arrangement... than that typically deployed by most high street and other banks...' is unexplained, unqualified and includes no indication of the factual or evidential source for the comment.</p> <p>This comment needs to be fully explained and evidenced or should be removed.</p>
3.6	<p>It is not clear how many Applicants have raised what the Draft Report refers to as the "air gap" issue. As far as Post Office is aware, no Applicant has used this phrase. Also, this paragraph contains a quoted extract, but the source is not stated. This paragraph should be re-drafted more precisely to address the above ambiguities.</p>
3.11	<p>Post Office is not responsible for an Applicant having misunderstood the instructions, and the Applicant would be liable for any loss as a result. Section 1, Clauses 13 and 14 of the Subpostmaster Contract make this point very clearly. Accordingly, it is not clear what point relevant to Applicants the Draft Report seeks to make and this should be clarified or removed in the next draft.</p> <p>Alternatively, the Draft Report suggests that Helpline staff have told 'some Subpostmasters' the 'out-of-sync' issue "will sort itself out". Post Office has not seen (and the Draft Report does not disclose) the evidence for this statement. In any event, even if Helpline staff have said this, the basis for the statement is correct. If a Subpostmaster enters the wrong ATM cash dispensed figure on Horizon, then a transaction correction is sent to the branch to correct this error.</p> <p>The Draft Report goes on to say that following the Helpline's advice, the problem did not sort itself out. This statement is incorrect for the reason stated above. Post Office has not seen evidence (and none is disclosed in the Draft Report) that supports this proposition. Post Office requests to see the evidence the Draft Report relies on to support this conclusion and Post Office will be happy to investigate it further. Alternatively, if this conclusion cannot be supported, it should be removed from the Draft Report.</p>
3.12	<p>This paragraph does not make it clear that it is the Subpostmaster's incorrect entry of figures into Horizon that causes any discrepancy. It also fails to explain the process for remedying this error through the reconciliation with BOI's records and transaction</p>

PRIVATE AND CONFIDENTIAL

	<p>corrections to the branch. These points should be highlighted in this paragraph or another appropriate place in this section of the Draft Report.</p>
3.13	<p>It is not explained, and Post Office does not understand what is meant by 'associated reconciliation difficulties'. It is also unclear on what basis those difficulties are said to have been 'commonplace in some branches prior to the February 2008 release of the Manual Update'. The statistical data to support this statement should be provided or this unsupported conclusion removed.</p>
3.14	<p>The extract from the Operations Manual quoted in paragraph 3.14 is, presumably, included to support the views in paragraph 3.13 but does not appear to provide material of relevance to matters discussed in that paragraph. Their relevance should be explained or the extracts deleted.</p>
3.15	<p>Post Office does not agree that the processing of ATM figures on Horizon and the Operations Manual are unduly complex or lack clarity. The Draft Report concludes that the extracts quoted in this paragraph are said to show '...how easy it might have been for some Subpostmasters to make mistakes...'. Post Office does not agree that anything in these extracts supports that conclusion, which is not supported by any evidence.</p> <p>Again, the relevance of these extracts is unclear and Post Office considers that their inclusion is potentially confusing. The Draft Report focuses on the 'out-of-sync' issue but these extracts relate to loading cash into an ATM which is unrelated to the 'out-of-sync' issue.</p> <p>Second Sight is asked to reconsider, and/or clearly explain, the relevance of these extracts to Applicants.</p>
3.17	<p>As far as Post Office is aware, of the cases that Second Sight has fully investigated, only two refer to the 'out-of-sync' issue. If that is the case Post Office considers that the Draft Report should make that clear.</p>
3.18	<p>Post Office does not agree that the advice that is alleged to have been given by the Helpline (and the Draft Report does not provide any evidence that such advice was given) would, if given, run the risk of allowing large shortfalls to build up in any event. The reconciliation of figures between Horizon and BOI happens within a few days of the relevant ATM transaction and will, if necessary, trigger a transaction correction thereby preventing the build-up of accounting shortfalls.</p> <p>The Draft Report sets out no evidence that the Post Office Helpline has provided incorrect advice. Post Office questions the value to Applicants of a conclusion which simply says that 'Inadequate and possibly inadequate advice ...<i>appears</i> to have been frequently provided which <i>may</i> have resulted in...' [emphasis added]. Furthermore, due to the issue of transaction corrections, even where a branch's accounts have got 'out-of-sync', they will have been corrected on a regular basis.</p> <p>Finally, and for the reasons set out at paragraph 3 above, the 'out-of-sync' issue will never cause a loss of physical cash. For the sake of clarity, Post Office does not accept that there is any justification for a Subpostmaster knowingly to submit a false account as such conduct conceals the true cash and stock position from Post Office and may constitute a criminal offence.</p> <p>Second Sight is asked to reconsider, and amend or supplement, this paragraph in light of the above information.</p>
3.19	<p>The Draft Report contains no evidence to suggest that a power or telecommunications</p>

PRIVATE AND CONFIDENTIAL

	<p>failure has caused a loss of ATM data and Second Sight, despite being invited to do so on a number of occasions, has not provided such evidence. As per Second Sight's recent question to us, Post Office is investigating this point further. In the meantime, Second Sight is asked to provide its evidence on this topic to Post Office or remove the relevant sections from the Draft Report.</p>
3.20	<p>It is noted that the scenario outlined in the Draft Report will not cause any loss in the branch. If the ATM does not vend any cash, the ATM cash totals receipt will not record any cash being dispensed. The amount of cash in the ATM will therefore balance with the figures recorded on Horizon.</p> <p>It may be that the customer's bank has incorrectly debited the customer's account but that is an issue between the customer and their bank. Although Post Office will provide information to assist the customer in resolving the issue, so long as the Subpostmaster has accurately recorded the cash dispensed figure from the ATM receipt on to Horizon, this discrepancy will not be passed to the branch.</p> <p>The Draft Report should clearly explain how this scenario impacts on branch accounting or it should be deleted as it will not assist Applicants.</p>
3.23	<p>Retract fraud cannot cause a loss to a Subpostmaster where they have followed the correct accounting procedure. Post Office has explained this issue to Second Sight on a number of occasions (including providing Second Sight with a written briefing focussing just on this issue). As yet, Second Sight has not notified Post Office of any flaw in Post Office's position and Post Office considers that the Draft Report should set out the information that Post Office has provided and, if appropriate, the reasons why Second Sight does not accept Post Office's explanation.</p> <p>It is accepted that other forms of third party theft or fraud are still under consideration. However, these issues were only raised with Post Office recently and have not been '...discussed at length with Post Office'. The Draft Report should reflect this.</p>
Section 4	Motor Vehicle Licences
	<p>Second Sight has not raised these issues with Post Office previously. Having undertaken a brief review of those CQRs that have been identified as raising MVL issues (in the Thematic Issues Report), Post Office cannot identify a case raising the complaint described in this section. We ask that the Second Sight identifies the cases raising this allegation so that Post Office may investigate them further and then revert to Second Sight as appropriate so that the Draft Report can provide an informed and substantiated position which will assist Applicants.</p>
Section 5	National Lottery
	<p>The Draft Report does not make it clear that prior to 2012, discrepancies on scratch card activations were a result of Subpostmasters failing to 'rem in' stock to Horizon. This was not a problem with Horizon but an error generated in branch by branch staff. This applies similarly to discrepancies with Lottery sales. The Draft Report should reflect this.</p>
5.5	<p>For this paragraph to be of any assistance to recipients of the Draft Report, Post Office considers that data is required on the number of incidents reported and whether those incidents have been investigated, along with the conclusions of those investigations.</p>
5.6	<p>Post Office does not understand what this paragraph is referring to and suggests the 'complication' raised in this paragraph should be explained in more detail. The Draft</p>

PRIVATE AND CONFIDENTIAL

	Report should be amended accordingly.
5.7	<p>Post Office considers that cross-referencing to an example of a specific case in Second Sight's Interim Report of 8 July is of little use to Applicants unless supported by a reasoned explanation as to how / why it is applicable to them.</p> <p>It is not clear whether the Draft Report is referring to a thematic issue or a specific case. If the former, the Draft Report should draw out the thematic issue (if any) rather than focus on the specific case.</p>
Section 6	Training, Support and Supervision
6.2	<p>The reference to the training being 'rated' as poor suggests that some form of statistical survey has been conducted. As far as Post Office is aware, this has not happened, but considers that the Draft Report should provide evidence which substantiates this assessment.</p> <p>The last two sentences require clarification as to whether these points reflect (i) Applicants' submissions to Second Sight or (ii) Second Sight's findings – in the latter case Post Office considers that further detail is needed to explain and justify those views.</p>
6.3 & 6.4	<p>The Draft Report states that as some branches 'only started making mistakes <i>after the new system was launched</i>' then that indicates that some Applicants or their staff were '...insufficiently trained...'. Post Office considers that this statement is logically flawed and factually incorrect.</p> <p>First, the Draft Report presents no evidence that branches made fewer errors before, rather than after, Horizon was introduced. Transaction records are not available for the period before Horizon was introduced and therefore there is no way to test that proposition. Although some Applicants may state this anecdotally, it requires them to recall events from over 14 years ago. It is not clear how many investigations Second Sight has completed on cases raising Lottery issues, and Post Office asks that statements such as '...heard many examples...' are substantiated.</p> <p>Second, Post Office does not train branch staff – this is a responsibility accepted by each Subpostmaster (see Section 15, Subpostmaster Contract). There could be many cases (indeed, conceivably the majority of cases) where a Subpostmaster was adequately trained but failed to adequately or at all pass on this training to their staff and that failure has caused the relevant mistakes. The Draft Report omits this point, despite acknowledging at paragraph 6.8 Subpostmasters' responsibility for training and supervising their staff.</p> <p>Third, as drafted the Draft Report appears to suggest that Post Office has an obligation to train all Subpostmasters until they are fully competent on the Horizon system. This is not correct. Post Office is only required to provide relevant training materials and processes to a Subpostmaster (and update them as necessary) in order to allow the Subpostmaster to carry out the required training of their assistants. If following the provision of those materials and processes, the Subpostmaster is not competent in their duties, there are a number of support mechanisms for them to utilise (NBSC, Post Office managers, etc.) and they can request further training. Post Office does not consider that the fact that an Applicant has made errors is evidence that Post Office did not meet its duties to provide training materials and processes.</p> <p>These paragraphs should be deleted or re-phrased to make clear the source of the views expressed eg. they are the anecdotal and untested opinion of Applicants in CQRs (in which case, it should state the number of Applicants holding these views).</p>

PRIVATE AND CONFIDENTIAL

6.5	The Draft Report does not state the number of 'examples' from Applicants about this issue nor does it state whether those 'examples' have been investigated. It is noted that training records prior to approximately 2007 are not available due to Post Office's standard document retention policies. It is therefore difficult to form a considered view on how training may have been delivered in specific cases before this time, given it would necessarily be based on the recollection of a small selection of Applicants for a period of more than two decades. To the extent that Second Sight feels there is sufficient evidence on which to form a fully justified view, the Draft Report should explain that view citing the relevant evidence.
6.7	The Draft Report provides no evidence to support the bald assertion in this paragraph about the knowledge of Post Office's auditors, investigators and line managers. Post Office considers this conclusion to be incorrect. Evidence substantiating the assertion should be provided or this conclusion withdrawn.
6.8	Post Office considers the possible implication arising from the last sentence of this paragraph is misleading. Post Office has no obligation, less still the ability or reasonable opportunity, to monitor the quality of training provided to assistants by Subpostmasters. This position is clearly explained in the Subpostmasters Contract. Accordingly, the inclusion of this paragraph may mislead Applicants. The Draft Report should therefore clarify the basis on which this statement has been made or it should be deleted.
6.9	<p>Post Office's business model is not an 'Horizon or associated issue' and is out of scope of the scheme and Second Sight's engagement: it should be deleted.</p> <p>In any event, the point made in this paragraph ignores the fact that Post Office has successfully traded and grown its business over many years. Please also see the response to section 2 above.</p>
Section 7	The Helpline
	This paragraph of the Draft Report repeats a number of the allegations raised by Applicants. However, it does not address the fact that the call logs for calls to NBSC have been provided to Second Sight in nearly every case investigated and the Draft Report does not set out evidence or analysis to suggest whether those allegations are correct or support a conclusion of a general failing as opposed to mistakes in individual cases. The Draft Report should reflect this.
Section 8	Limitations in the Transactional 'Audit Trail'
	This section appears to be premised on the fact that a branch has made an error that needs investigating. Post Office considers it to be a critical point that the error originates from the Subpostmaster or his or her staff (and therefore incumbent on them to resolve or draw to Post Office's attention), and this should be stated.
	Data that isn't available even on the day of the transaction
8.1 – 8.8	The issues raised in this paragraph have not been put to Post Office previously. We are considering these points and will revert separately with our comments. The Draft Report should record that Post Office is investigating this new issue.
	Data that was at first available, but after 42 days (later extended to 60 days) is no

PRIVATE AND CONFIDENTIAL

	longer available
8.9	<p>The statement that if a TC is over 42 days old, the Subpostmaster has no choice but to accept it is incorrect.</p> <p>The nature of the evidence needed to review or challenge a TC is very product specific – therefore this issue lends itself to product specific analysis and not a general view across all branch accounting.</p> <p>Also, in many cases, the evidence required from the branch to dispute a TC would not be on Horizon but kept in the branch records. For example, if a TC is generated because the ATM cash dispensed figure in BOI's records did not match Horizon's records, a Subpostmaster need only submit the ATM receipt to prove that he or she had keyed in the correct number and the TC would be reversed. As branches are required to keep the ATM receipt in branch, contesting this type of TC can occur long after 42 days.</p> <p>Post Office is prepared to investigate any product-specific allegation that there is an insufficient audit trail for branches to investigate TCs. However, the general conclusion in this paragraph is (in light of the above example) incorrect. To be of assistance in resolving Applicants' issues, it is recommended that this paragraph would benefit from a product-by-product approach.</p>
	Data that isn't available after suspension
8.10	<p>This paragraph raises issues that are specific to individual cases. Post Office cannot see a general thematic issue here. If there is no thematic issue, then there is no need to include this section in the Draft Report, rather it should be addressed on a case by case basis.</p>
Section 9	Transactions not entered by the Subpostmaster or their staff
9	<p>The question of transactions being recorded in a branch's accounts after an Applicant has been suspended has, as far as Post Office is aware, only arisen in one case. This was dealt with comprehensively in Spot Review 6 and shown to be for valid reasons. The Draft Report offers no evidence of this happening inappropriately in any other case. The Draft Report should therefore explain how this issue affects Applicants generally or this section should be removed.</p>
Section 10	Automatic Transaction Reversals
10.2	<p>'Ghost' transactions are defined by in the Draft Report as '...genuine transactions that for some reason appear multiple times in the Horizon records'. This is not the same as an 'Automatic Transaction Reversal' which is the title of this section of the Draft Report. These appear to be two separate issues, which should be dealt with independently.</p> <p>Post Office is not aware that Second Sight has presented any evidence of a 'Ghost' transaction ever having occurred. Without substantiating evidence, references to 'Ghost' transactions appear to be nothing more than speculation at present and if this is the case the Draft Report should make this clear to avoid potentially misleading the reader.</p> <p>Spot Review 1 is cited as an example of an 'automatic transaction reversal'. This phrase has been coined by Second Sight and Post Office considers it to be misleading as it suggests that Horizon will undertake transaction reversals automatically without any user input. As explained in detail in Post Office's response to Spot Review 1, the reversal of transactions in that Spot Review were caused by the relevant Subpostmaster cancelling</p>

PRIVATE AND CONFIDENTIAL

	the basket of transactions he or she was conducting for a customer. The Draft Report should therefore explain how this issue is applicable to Applicants generally or it should be removed.
10.3	For the reasons stated above and in Spot Review 1, the conclusion that the allocation of a Subpostmaster's user ID to reverse transactions through the recovery process is a 'system design error' is incorrect. The transactions are allocated to the user logged on to the terminal and who actions the recovery process. Second Sight either needs to fully explain and evidence why, in its opinion, Post Office's response to Spot Review 1 was incorrect or remove this conclusion.
Section 11	Cash and Stock Remittances ('Rems') in and out of the branch
11.3	The issues raised in this paragraph have not been put to Post Office previously. We are considering these points and will revert separately with our comments. The Draft Report should be amended to reflect this.
Section 12	Missing Cheques
	<p>Post Office has explained in its response to Spot Review 12 that Subpostmasters will not be liable for cheques lost in transit. Post Office considers it necessary for the Draft Report to reference this for completeness. The other issues with cheques (mutilated cheques and bounced cheques) were only recently raised with Post Office by Second Sight and are currently under investigation.</p> <p>The Draft Report should be amended to reflect this.</p>
Section 13	Pensions and Allowances
	<p>Post Office has fully addressed this issue in its written briefing to Second Sight on P&A Fraud, the content of which, and Second Sight's opinion thereon, is not reflected in this section. Post Office would like to understand on what basis Second Sight have not included an assessment of that information against any evidence it holds. If Second Sight has any further questions on this topic, Post Office would be happy to address them.</p> <p>Post Office also observes that it is hard to see how this Section in its current form would assist an Applicant who has raised in their application an issue relating to "Pensions and Allowances". It only alludes to outstanding questions relating to convictions. As stated above Post Office has already provided extensive briefing on this issue and, as also mentioned, Second Sight have accepted that matters relating to criminal law and procedure are outside their expertise. Second Sight also appears to have identified 'Pensions and Allowances' as a thematic issue as far back as November 2013, so Post Office would have expected the Draft Report to contain more detail about the progress Second Sight have made investigating this issue.</p> <p>The Draft Report should therefore explain how this issue is applicable to Applicants generally or it should be removed.</p>
Section 14	Post Office's Data Retention Policy
	This section does not appear to raise any thematic issue that would affect branch accounting or impact on Horizon. If Second Sight wishes to comment on the availability information this may be better addressed in the introduction to the Draft Report as part of

PRIVATE AND CONFIDENTIAL

	<p>Second Sight's methodology.</p> <p>Post Office acknowledges that because of its retention policy some information will no longer be available. That fact was also acknowledged in the Scheme documentation. However, Post Office does not consider this to be a 'Horizon or associated issue'. In any event, any reference to the appropriateness of retention policies would require an analysis of the various legal and regulatory regimes around data retention which the Draft Report does not provide.</p>
Section 15	Surpluses
15.2	<p>The statement that Post Office 'does not seem to regard surpluses as worth the same degree of attention as shortages' is demonstrably incorrect. If Post Office discovers a discrepancy, whether it be a shortage or surplus, it generates a transaction correction.</p> <p>Where discrepancies are discovered in branch, it is up to the Subpostmaster to dispute the discrepancy with Post Office (by contacting the NBSC). As may not be surprising, Subpostmasters typically dispute shortages more than they do surpluses. Likewise with transaction corrections, Subpostmasters tend to dispute debits more than credits. It therefore follows and is not surprising that Post Office spends more time investigating shortages than surpluses. If a Subpostmaster does not dispute a surplus (or a shortage) it is reasonable for Post Office to assume that the discrepancy has been validly attributed to an error in the branch.</p> <p>A full explanation with supporting evidence for Second Sight's opinion should be presented in this paragraph if it is to remain in the Draft Report.</p>
15.4	<p>Post Office considers that the view expressed in this paragraph, which is unsupported by any evidence, is incorrect. It should be noted that, despite having been engaged by Post Office for two years investigating Horizon, Second Sight is yet to identify a system-wide flaw that would undermine Post Office's confidence in the system.</p> <p>A full explanation with supporting evidence for Second Sight's opinion should be presented in this paragraph if it is to remain in the Draft Report.</p>
15.5	<p>The logic applied in the analysis in this paragraph appears to overlook the fact that surpluses can be generated in two ways. The branch could be holding too much cash. This could be done simply by handing over insufficient cash to a customer. A surplus could also be generated by inputting the incorrect transaction details into Horizon despite the branch holding the correct amount of cash. It is equally possible that a branch would understate the value of a transaction as overstate it. The Draft Report should be amended to reflect this.</p>
15.6	<p>Subpostmasters can effectively hold surpluses in suspense by "settling centrally" any surplus. Indeed a number of Subpostmasters regularly do this. This information should be provided in the Draft Report.</p>
15.7	<p>Post Office is not aware of any financial institution that runs an agency model like Post Office, so unless the Draft Report provides a legitimate basis for this comparison it should be removed. For example, high street bank branches are directly owned and run by the bank: they are not contracted out to third party agents.</p>
15.8	<p>The scenario described in this paragraph would never occur and should therefore be removed. If the Applicant has removed a surplus due to an error then they will be holding the cash to make good any later transaction correction related to that error.</p>

PRIVATE AND CONFIDENTIAL

15.9	It is incorrect to say that Post Office ' <i>...never has to bear the cost of...</i> ' discrepancies. Post Office has given Second Sight numerous examples of where Post Office bears the cost of an error (for example in relation to missing cheques). This paragraph should be re-drafted to address the above.
15.10	This paragraph appears to duplicate paragraph 8.1 above. Post Office repeats its comments above here.
Section 16	Cash withdrawals accidentally processed as deposits and other counter-errors that benefit customers at the expense of the Subpostmaster
	Cash withdrawals accidentally processed as deposits
16.1	This paragraph appears to be a repetition of the issues in section 8. It is however noted that this type of error would begin with a mistake by the Applicant who incorrectly records a deposit rather than a withdrawal and therefore the Applicant would be liable for this mistake. In order to provide Applicants with a complete picture, the full context in which this error arises should be described in the Draft Report (eg. that it begins with a user error).
	Other counter errors that benefit customers at the expense of the Subpostmaster
16.2 - 16.3	The issues raised in these paragraphs were only raised with Post Office recently and are currently under investigation. As yet, Post Office has not completed its investigation into any case that alleges this problem. The Draft Report should be amended to reflect this.
16.5 - 16.10	These paragraphs of the Draft Report are copied from the CQR on case M038. Post Office is working on its investigation into this case which will be provided to Second Sight shortly. The Draft Report should therefore explain how this issue is applicable to Applicants generally or it should be removed.
Section 17	Error and fraud repellency
17	<p>The Draft Report suggests that Horizon is not fit for purpose because it is not sufficiently "error repellent". The errors in question are those caused in branch by Applicants and their staff. As the Subpostmaster Contract clearly states, Subpostmasters are liable for these errors. For the reasons stated above, any analysis beyond this point is beyond Second Sight's engagement and should not be included in the Draft Report. Nevertheless, Post Office notes that:</p> <ul style="list-style-type: none"> • The Draft Report has not identified an example where Post Office could have reasonably made the system more error repellent; • There is no explanation for the assertion that the system must have a 'high degree of error repellency'; • This assessment has not been made against any industry or technical benchmark; • This conclusion appears to have been formed after investigation of only a small number of cases and without reference to the vast majority of Subpostmasters (and the millions of transactions they have successfully processed) who are not Applicants and do not appear to be suffering from errors which Post Office is allegedly responsible for having failed to 'repel'.

PRIVATE AND CONFIDENTIAL

	<ul style="list-style-type: none"> The Draft Report fails to take a holistic view of error prevention in that it overlooks the various support processes in place for Subpostmasters to correct errors after they have occurred (eg. NBSC), and the steps taken to continually upgrade and improve the Horizon system, processes and user experience.
Section 18	Giro transactions
	The issues raised in this section have not been put to Post Office previously. We are considering these points and will revert separately with our comments. The Draft Report should be amended to reflect this.
Section 19	One-sided transactions
	As the Draft Report notes, the issue of "one-sided" transactions is still under investigation. However, the Draft Report appears to state definitively that one-sided transactions have occurred (see paragraph 19.1). As far as Post Office is aware, only one case raising one-sided transactions has been investigated (M014) and this was proved to be caused by a temporary processing issue at the customer's bank rather than any issue with Horizon. If this section, as it appears to be, is based on a hypothetical issue rather than an actual issue at this stage, Post Office considers that the Draft Report should make this clear to avoid confusion.
Section 20	Hardware issues
20.4	As far as Post Office is aware the issue of duplicate postage labels being produced has only been raised in one case. This was dealt with in Spot Review 10 which shows that the Applicant's recollection of this issue was incorrect. Second Sight either needs to fully explain and evidence why, in its opinion, Post Office's response to Spot Review 10 was incorrect or remove this part of the Draft Report. Also, the Draft Report should explain how this issue is applicable to Applicants generally or it should be removed.
Section 22	Post Office Investigations
	<p>Second Sight have acknowledged that they are not qualified to comment on Post Office's prosecution processes. Further, this matter is not a 'Horizon and associated issue' nor within the scope of the Scheme. For the record, Post Office considers the Draft Report findings in this section to be wholly inaccurate.</p> <p>For all the above reasons, this section should be deleted.</p>