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**COMPLAINT REVIEW AND MEDIATION SCHEME
CHRONOLOGY AND SUPPORTING DOCUMENTS**

FILE 2 OF 5

From: Mark Underwood1 [GRO]
To: Mark Underwood1 [GRO]
Subject: FW: Second Sight note from meeting 25 March
Date: Tue, 13 Oct 2015 16:12:41 +0000
Importance: Normal

From: "WALKER, Janet" [GRO]
Date: 26 March 2015 17:39:25 GMT
To: Alwen Lynns [GRO]
Subject: RE: Second Sight note from meeting 25 March

Hi Alwen,

Thanks for this. James was very keen his email reach you swiftly. He is in the process of reviewing my note, which supports his recollection. You are welcome to call me to discuss, but if you would prefer to speak to James, please let me know. Parliament breaks for Recess tonight, and it may be slightly tricky trying to pin him down to a time for a chat until I speak to him tomorrow.

Kind regards

Janet

Janet Walker

Office of the Rt Hon James Arbuthnot

MP for North East Hampshire

House of Commons

London SW1A 0AA

T: [GRO]

E: [janet.walker](mailto:janet.walker@parliament.uk) [GRO]

www.jamesarbuthnot.com

From: Alwen Lyons [mailto:alwen.lyons@] GRO
Sent: 26 March 2013 17:18
To: WALKER, Janet
Subject: FW: Second Sight note from meeting 25 March
Sensitivity: Confidential

Janet

There seems some confusion here. Does your note of the meeting help clarify.

Thanks

Alwen

Alwen Lyons | Company Secretary

148 Old Street, LONDON, EC1Y 9HQ

GRO

alwen.lyons@

GRO

#westminster

From:
ARBUTHNOT,
James
[mailto:james.arbut
hnot@] GRO
GRO
Sent: 26 March
2013 15:44
To: Susan Crichton
Cc: Alwen Lyons;
Simon Baker; Ian
Henderson; 'Ron
Warmington'
Subject: Second
Sight note from
meeting 25 March
Sensitivity:
Confidential

Dear Susan,

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to know how their individual constituent's case concludes, and whether it can be stated that their constituent has been wrongly accused.

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Alan Bates reported that a significant number of SPMRs had not accepted the JFSA / POL agreement and remained concerned about possible retribution from POL. This has resulted in under reporting of cases and issues. (This was the first time we had been told about this) – this is true. I was rather irritated that Alan Bates raised this without warning, and did so publicly.

MPs (and JFSA) reported continuing concern about “heavy handed” audit and investigations processes and the inability within POL to differentiate between genuine issues of concern reported by SPMRs compared with suspected fraud or theft. This is causing real hardship to SPMRs and may lead to suicides. (This was mentioned more than once) – this was the view coming from the JFSA, not MPs. I do not recall any mention of suicides at the meeting, but JFSA did raise the point that POL continues even today to prosecute allegations of theft without the prior investigation or the tentativeness that this investigation would suggest might be necessary.

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In the light of the issues now being looked at by Second Sight, POL should consider a suspension of all current prosecutions activity until after July at least – this was not specifically discussed at the meeting, but it may well follow from the point I make at 5 above.

There was widespread support for the view that it is essential the investigation continues to be supported by POL as it was felt that this is the best opportunity to really dig into the issues and concerns reported by SPMRs – as above, a good point. There was, however, concern that the matter was going on so long and costing POL a lot.

To my mind, the meeting went as well as could be expected. I would not go so far as to support Ian's opinion that 'extensive concern' was expressed about the investigation and prosecution processes the Post Office is following. My impression is that by and large, we listened to what was being presented to us by Second Sight. Mike Wood and Kevin Barron certainly did mount some robust questioning, as they should, but to shape this as 'extensive concern' is stretching things a bit, I think.

I shall circulate my briefing in due course, but would be grateful if you would note my comments above.

Yours ever,

James

Office of the Rt Hon James Arbuthnot, MP
House of Commons
London SW1A 0AA

Website: www.jamesarbuthnot.com

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From: Ian Henderson [mailto:ian.henderson@postoffice.co.uk] **GRO**
Sent: 26 March 2013 10:25
To: 'Susan Crichton'
Cc: 'Alwen Lyons'; 'Simon Baker'; 'Ruth X Barker'; 'Mark R Davies'; ian.henderson@postoffice.co.uk **GRO**
Subject: Meeting with MPs - 25 March 2013
Sensitivity: Confidential

CONFIDENTIAL

Susan

The meeting with MPs went reasonably well, however there was robust questioning from a number of MPs, particularly Mike Wood MP and extensive concern expressed about POL investigation and prosecutions processes. Janet Walker will be circulating an official minute of the meeting in due course. Whilst Shoosmiths were present throughout, they took no part in the meeting and did not comment at any point.

I attach a copy of the Second Sight Briefing Note that was tabled at the meeting.

Headline points from the meeting were:

There was broad support for the concept of reporting on issues rather than individual cases

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I will circulate Janet Walkers note of the meeting as soon as I receive it

With best wishes

Jan R Henderson CCE CISA FCA
Advanced Forensics - London, UK

Forensic computing expert witness and electronic disclosure specialist

UK Mobile: GRO

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Website: <http://advancedforensics.com>

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Twitter: <http://twitter.com/forensicgod>

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Alwen Lyons | Company Secretary

148 Old Street, LONDON, EC1Y 9HQ

GRO

~~alwen.lyons@gro.org.uk~~ **GRO**

GRO

From: ARBUTHNOT, James
[mailto:~~arbutnot.james@gro.org.uk~~] **GRO**
Sent: 26 March 2013 15:44
To: Susan Crichton
Cc: Alwen Lyons; Simon Baker; Ian Henderson; 'Ron Warrington'
Subject: Second Sight note from meeting 25 March
Sensitivity: Confidential

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Forensic computing expert witness and electronic disclosure specialist

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Filename	5 - FW Second Sight note from meeting 25 March - Copy(1).msg	ORIGINAL
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Justice For Subpostmasters Alliance

Mr James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

Alan Bates
3 Bod Eilan
Llanellian-yn-Rhos
N Wales
LL29 8UY

1st April 2013

Tel: **GRO**

Email: alan.bates@**GRO**

Dear Mr Arbuthnot,

Having had the opportunity to reflect upon the meeting at Portcullis House last week, I thought it important to convey to you the concerns that both Kay Linnell and I took from the 2nd Sight report and the briefing document they produced for the meeting.

Whilst every individual's case is extremely important to that individual, it is also doubly so in the weight that it adds to the systemic failures with Post Office and their Horizon system. These are issues which we at JPSA have been raising for years, and having worked closely with 2nd Sight over the last few months, can see that they too have independently arrived at the same conclusions through their analysis of the cases.

We can neither understand why 2nd Sight were so reluctant to bring the systemic failures to the fore at the meeting, nor see why the focus of the investigation has not now been centred on them. These systemic failures are proven facts, and are at the root of most of the SPMR cases. Although from the 2nd Sight briefing document, it seems as though they are only going to be treated as an adjunct to the issue of the cases, to the point of where only the first three they list may be featured in their forthcoming report.

The items I am referring to from their document are:-

1. Transaction anomalies following communications or power failures;
2. Transactions or Transaction Corrections not entered by the Subpostmaster or staff;
3. Missing or duplicated transactions associated with a small number of specific transaction types;
4. Training and Support issues;
5. Limitations in the Transaction Audit Trail available to Subpostmasters;
6. Process issues at the end of each trading period; and
7. The contract between the Post Office and Subpostmasters.

We fully appreciate that more work has to be undertaken to draw together the descriptions of each of the systemic failures recognized so far, and the others known about, but for whatever reason not appearing on the list. Yet the work involved would be minor in comparison to labouring through the individual cases first. These systemic failures are also significantly easier

for others to comprehend without the requirement of an in-depth knowledge of the finer points of Horizon.

It is evident to us, that these systemic failures should now become the yardstick that the individual cases are measured against. This approach would offer a quicker and far more efficient method of addressing the whole issue and would minimise the information required from POL, which is the main cause of the slow progress 2nd Sight has made with the individual cases.

There does seem to be far too much sensitivity in not requiring POL to address these systemic failures now, rather than waiting until a report is produced later in the year. Surely the 2nd Sight regular weekly, and at times daily, updating of POL on issues as they appear, must have brought them to their attention. This alone raises the question as to why POL is continuing with their prosecutions, when it is now so much more obvious that they are standing on very shaky ground. The systemic failures of Post Office and their Horizon system are clearly identified facts, and there is no reason why POL, if they are genuinely sincere about resolving these issues, could not begin a dialogue on a way forward. If only SPMR's had been treated with the same consideration then maybe there would have been no requirement for the current investigation.

If it would assist in any way, both Kay Linnell and I would be willing to meet with either you or Post Office to discuss a more comprehensive list of the systemic failures of the system. It might also offer an opportunity to explore how the whole issue can be resolved without the need to drag it through the courts and the media, with all the damage it will cause to serving SPMRs and their investments, let alone the name of Post Office. There is no doubt that there is now more than enough evidence of the systemic failures of Post Office and their Horizon system, their bullying and abusive use of their powers. Yet it has been Government that has allowed POL to continue in this unchecked manner for many years, behind the standard response "Government has adopted an arm's length relationship with the company (POL)", so heavily quoted in different Minister's responses to MP's and SPMR's.

As ever, we are very grateful and appreciative of your on-going support with this issue and can reaffirm our support with the process to resolve this matter.

GRO! (Yours sincerely)

GRO

Alan Bates
Chairman, Justice For Subpostmasters Alliance

#94.1
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Filename	5 4 Alan Bates to JNA 1 April 2013(1).pdf	ORIGINAL
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From: The Rt. Hon. James Arbuthnot, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

16 April 2013

Mr Alan Bates
3 Bod Eilan
Llanellian-ny-Rhos
North Wales LL29 8UY

Dear Alan

Thank you for your letter of 1 April. Parliament has been in Recess and I have only just returned to Westminster, so have not had the opportunity to read your thoughts about the meeting last month.

I am very sorry indeed that you are clearly discontent with how the investigations are proceeding. In my discussions with both Second Sight and the Post Office, I understood that firm evidence of any failures inherent in Horizon is yet to be found in any case the investigators have thus far undertaken. In my last discussion with the Post Office, the Chairman made it very clear to me that no such evidence had been offered to her. Until it is, the Post Office has no reason to admit that systemic failures exist. I do not believe that the Post Office is being afforded any special or sensitive treatment; it is simply legally untenable that such an admission ought to be made until such evidence is produced.

I shall ask the investigators again if they have such evidence, but I would also be grateful if you might let me know what it is you believe has been found that can be regarded as such. I should then put this to Second Sight and ask for their opinion.

The explanation that Second Sight offered me as to why they offer only thematic conclusions to their investigations thus far rings true to me: the volume and complexity of background data relevant to every case is making analysis and investigation an extraordinarily time-consuming process. What I have suggested to the investigators is that they take the two cases which are most likely, in their opinion, to yield a result which does unearth the kind of systemic failures you claim, and pursue these first, giving MPs a result, perhaps even only a preliminary one, by Summer.

2...

I would point out that the Post Office is being helpful in continuing to fund these investigations, their initial budget already exceeded without demur. No matter what one's feelings toward it, this is a fact that ought to be acknowledged.

I agree with you that the result of every case is extremely important to every individual, and as an MP of one of these, I too am looking forward to the process we have undertaken to flow through to a result specific to her.

Finally, Janet tells me you called this morning about two matters. The first, that Second Sight be offered a copy of your letter to me, is absolutely fine. In fact, it would be extremely helpful to me to have their comments on what you say, and I am asking them for that. The second, regarding the request to extend the budget to allow Kay to continue her work is a matter you will need to discuss with the Post Office.

I hope this is all helpful, and thank you for letting me know your thoughts.

Yours ever

GRO

#62.1

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Justice For Subpostmasters Alliance

Jo Swinson MP
Minister for Postal Affairs
Department for Business, Innovation & Skills
1 Victoria Street
LONDON
SW1H 0ET

Alan Bates
3 Bod Elian
Llanellian-yn-Rhos
N Wales
LL29 8UY

17th April 2013



Tel:
Email: alan.bates

Dear Minister

I am writing to you on behalf of the Justice For Subpostmasters Alliance (JFSA). In the past I have written to your predecessors Ed Davey and Norman Lamb over the issues that have been taking place between JFSA and Post Office and their Horizon system.

I am sure your department has enough documentation on the issues we (JFSA) are concerned with in order to provide you with background material. Previously a reference number 213102 has appeared on correspondence. At the meeting I had with Norman Lamb at the end of June last year we briefly discussed the then current proposal a group of MPs had made for an external forensic accountancy firm, 2nd Sight, to investigate a number of the claims that their constituents i.e. subpostmasters, had brought to their MPs' attention. The Post Office were to be involved and they would fund the exercise, but when I met with Mr Lamb I expressed JFSAs' very real concern over the independency of such an investigation, yet confirmed we were prepared to engage with the exercise if we could obtain assurances that it was to be a genuine investigation. I also had given an undertaking to Mr Lamb that I would keep him informed of the progress and refer any concerns we had about the veracity of the work of the investigation.

It took until late December 2012 for JFSA to finally agree the terms with all the parties involved, at which time we offered considerable assistance by providing information and cases to the external investigations firm 2nd Sight. JFSA also acted as a central contact and clearing house for cases that were raised by serving subpostmasters throughout January and February of 2013. During this period we worked very closely with the investigators, who were not only taking the cases we were sending to them but also were accepting the constituents' cases from the MPs involved.

On March 25th 2013, a 1 hour meeting was held at Portcullis House. The meeting had been arranged for 2nd Sight to report to the MPs who attended on the methodology of their investigation, and the areas they were proposing to include in the report that is due to be completed by mid-July 2013. I was at that meeting and I was accompanied by the JFSA forensic accountancy expert who has a watching brief on the investigation work being carried out by 2nd Sight.

I have now reached the main reason as to why I am writing to you at this time.

What 2nd Sight presented at the Portcullis House meeting was a very real source of concern for both the JFSA expert and myself. We were shocked at the direction this investigation was being held to follow despite all the evidence that had appeared since it began. Whilst we appreciate that this investigation would never have come about without the support of the MPs, who rightly want the cases of their constituents investigated, so much more has come to light and there seems to be considerable reluctance to broaden the terms of reference to incorporate this information.

While every individual's case is extremely important to that individual, it is also doubly so in the weight that it adds to the systemic failures within Post Office and their Horizon system. These are issues which we at JFSA have been raising for years, and having worked closely with 2nd Sight over the last few months, we can see that they too have independently arrived at the same conclusions through their analysis of the cases. What has become evident is that these major systematic failures within Post Office and their Horizon system have undoubtedly led to many miscarriages of justice. These systemic failures are now proven facts, and are at the root of most of the subpostmaster cases. Yet we cannot understand why 2nd Sight were so reluctant to bring the systemic failures to the fore at the Portcullis House meeting, or why the focus of the investigation has not now been centred upon them.

From the outset, we had voiced serious concerns that this investigation would not be allowed to present a true picture of what has occurred in the past or what is still continuing today. We have always known that any investigation has to be truly independent and able to work without hindrance or constraint, yet although we thought we had assurances of this in the beginning, we have little faith that this is the current position. Put simply, the way it is heading there will be no merit to any report produced, as JFSA will not only fail to support it, but will challenge its findings, using evidence that the investigation has already uncovered.

I don't think it would be helpful to include a list of the systemic failures here at this time, suffice it say that there are probably an initial 10-12 items that have been at the root of many of the problems that most of the subpostmasters have been affected by. Both our forensic accountancy expert and I would gladly meet with you to briefly go through these issues if you would find it useful for us to do so.

For years JFSA has been campaigning for a totally independent inquiry to be set up by Government to investigate the failures within Post Office and their Horizon system, the key word being independent. This current investigation being funded by Post Office with the investigators reporting directly to Post Office on a weekly and at times daily basis, and where the direction of the investigators work is being channelled, will struggle to live up to any independency claim once the report is published.

There is no doubt at all that the systemic failures identified so far have been brought to Post Offices' attention through their regular meetings with 2nd Sight, and this alone raises the question as to why Post Office is continuing with their prosecutions of subpostmasters, when it is now so much more obvious that they are standing on very shaky legal ground. As I have mentioned before, these systemic failures are proven facts which are at the root of many of the subpostmaster cases, although from the 2nd Sight briefing document presented at the Portcullis House meeting, they are only going to be treated as an adjunct

to the issue of the individual cases, to the point where only a few of them may be featured in their forthcoming report.

It is evident to us, that these systemic failures should become the yardstick that the individual cases are measured against, as they are significantly easier for others to comprehend without the requirement of an in-depth knowledge of the finer points of Horizon. The refocusing of the investigation on the systemic failures would not only offer a quicker and far more efficient method of addressing the whole issue but would minimise the information required from Post Office, which has been the main cause of the slow, and at times no, progress, 2nd Sight has made with the individual cases.

I believe it is important that you and your department are made aware of the current position with regard to the investigation, and if you would find it useful I am willing to meet with you to go through the issues in more depth.

Please let me know if you require any further information.

GRO

Alan Bates
Chairman, Justice For Subpostmasters Alliance

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CMS Cameron McKenna

Attendance Note

Client:	Post Office Limited
Matter:	Horizon - Second Sight Interim Report
File Number:	111850.00038
Fee-Earner:	SCB
Type of Attendance:	External meeting at Houses of Parliament
Date	8 July 2013

Attending

James Arbutnot ("JAMP") began by saying that the way he proposed the meeting should go would be:

1. a summary from Second Sight of the report done;
2. brief comments from Alan Bates (JFSA) and Kay Linnell (JFSA's appointed forensic accountant) on the report; and
3. then open up for questions.

JAMP said that in this meeting there are also observers from various bodies, including: Mike Whitehead from BIS, two observers from POL. JAMP said that the observers were not here to be battered with questions. They were here to make sure that those who are in positions of authority are fully apprised as to the various discussions.

Also in attendance were Ian Henderson and Ron Warrington from Second Sight, Tadge Channer from Shoosmiths, and Janet Walker, who is working with JAMP.

JAMP first began the meeting by saying that he would like to thank POL very much for supporting and funding the review. Thanks also to POL for being open and for finding a light to shine on the issues. He also issued thanks, particularly, to Second Sight, to Ian Henderson and Ron Warrington, for their interim report. He also thanked Alan Bates and Kay Linnell for keeping an eye on Second Sight. Thanks also to Tadge Channer and Shoosmiths for the contribution to keep light burning where things were going dark.

Second Sight began their report. They explained the structure of the report and explained that they began by discussing what was meant by the term "Horizon", and whether it was just the software and the code being reviewed or the totality of the system, including the training and the operational processes. It soon became clear that they needed to look at the totality of the user experience. They also looked at how POL investigated cases which were brought to their attention.

In section 2 they explained their approach to consider 29 cases which came to them through the MP route, and 18 through the JFSA.

Section 3 – As soon as they started a fact tracking review, it became clear that it would be important to adopt the approach of a Spot Review, an investigation within an investigation. This was designed to be self-contained and to focus on an issue in scope and the relevant remit. Some cases would require multiple reviews and some single.

Second Sight were pleased at the relationship and the involvement with the JFSA (section 4).

Comments on the Spot Review and responses from POL – section 5. It was made clear that POL were extremely supportive of the investigation. This is probably something they were not used to, particularly the volume and the range of questions. There were, however, some criticisms of the POL responses. In particular, Second Sight were given answers based on Standard Operating Procedures and Controls, rather than evidence of what actually happened.

Section 6 – This section identifies whether defects in Horizon caused some of the losses about which the SPMRs made complaint. There was still much work left, although Second Sight have broadly concluded with regard to the wider aspects of Horizon.

Out of the four Spot Reviews, two involved concerns about the operation of Horizon in the sense of the wider user experience. These are SR1 and SR22.

There was a potentially significant finding or rather disclosure by POL, relating to defects in the software which are described in section 6. However, it seems that this was quite narrowly contained in the sense that it impacted a relatively small number of branches, but took time to discover and correct.

Section 7 – There are a number themes involving common issues from multiple SPMRs. The last item listed, item (j), does not feature in the preliminary conclusion because it is outside the scope of the terms of reference. However, Second Sight did feel that the contract between SPMRs and POL transferred commercial risk to the SPMRs, including in relation to changes, which would result in a benefit to POL, but increased the likelihood of increased risk for the SPMRs. Second Sight felt that the balance between the two of risk and reward should be looked into, although not by Second Sight.

Section 8, preliminary conclusions – Second Sight identified potential problems in the way in which POL deals with problems which arise and which are set out in section 8.2(a)-(f). Two of these were highlighted in particular. The first identified in (d) relating to the difficulty for SPMRs in contacting POL, other than through a help desk, which inevitably was designed to address technical help, rather than provide a forum to raise broader issues, which highlighted the need for a user type forum or the “voice of the customer”.

Also, in relation to (e) [relating to the lack of an affective “outreach” investigations function within POL, resulting in POL failing to identify the root cause of problems and missing opportunities for process improvements], they considered practice was constrained by virtue of the contract between POL and the SPMRs.

Alan Bates made a few comments. However, he said that the report was quite new and that JFSA needed time to reflect. He was also aware that POL were present and was therefore restricted in what he could say. However, he said that the interim report [and investigation] helped in opening a dialogue between POL and JFSA. Indeed, they had just come from a meeting with POL, and were looking at the way in which they can investigate cases to see what can be done in the more open environment. They are prepared to consider whether there are ways in which things could have been done better. However, in terms of comments on the report in detail, it is still early days. JAMP said that although it is an interim report, it is quite detailed.

JAMP then opened the meeting up for comments from those attending, and in particular the other MPs. First, Mike [?] MP (“M?MP”) said that they had finally got POL to accept that they did not have a system that never makes mistakes or causes problems. He asked whether, in relation to the Spot Reviews and to the concern which Second Sight made reference to, whether each Spot Review shows some cause for concern.

Second Sight said that at least two of the Spot Reviews were very much work in progress. However, in relation to SR1 and SR22, they had been able to reach preliminary conclusions.

In relation to SR1, there was a lack of timely, accurate and complete information and that this in their opinion was a significant factor. This was based on a wider definition of Horizon, not just the software, so it included the processes and the information made available to the SPMRs.

M?MP said again that Second Sight has spot checked for and in each one had found a problem, so concluded POL had some responsibility.

Second Sight reiterated that in relation to SR1 and SR22 they had reached a tentative conclusion on the issues. In relation to SR22 POL had already made changes, however, the individual SPMR may not have experienced problems had the process change taken place before. However, these are still preliminary conclusions.

In relation to SR5, which relates to the issue of remote access, they had recent new information which was potentially significant. M?MP asked where this information had come from and Second Sight said it had come from the relevant SPMR, who identified an email proving that a meeting had taken place. However, this was very much late breaking information and in order to do this justice, they need to bottom this out.

Second Sight also referred to SR21, which they said was still in the air relating to mysterious transactions.

However, the Spot Review that the MPs are probably most interested in, is SR22, relating to scratch cards and the air gap between Camelot and Horizon.

In this particular case there was a huge disparity in relation to the open all day shop and the Post Office counter. The shop hours were out of sync compared to the branch. The problem has been fixed in two stages. First, a procedural change, but the real fix came in February 2012 with an automation joining the two systems together.

M?MP commented that after all the work done by Second Sight, they have spot checked four problems. Second Sight said they were reporting on four, but that work had been done on more than four. M?MP said that his comment was not intended to be a criticism.

It was asked whether we can now know if these issues are being resolved and in this new spirit of transparency.

M?MP said that if it is for POL to address, he would be far less happy about that.

Second Sight said that the POL issue of defects or bugs did not relate to the four spot reviews.

Andrew Bridgen MP (ABMP) asked Second Sight if they believed the issues that they had identified had an impact in relation to the historic convictions.

Second Sight said that was a legal question which they were not qualified to answer and they did not consider it was appropriate to express an opinion. They have to present facts and it is for others to consider the impact on any historic cases.

However, one of the Second Sight individuals said that he considered that SR22 makes a reference to something that is germane to this.

JAMP(?) said that this was a very good question to put to the Minister or POL or both.

JAMP said that it strikes him that because POL has produced some changes in processes as a result of investigation, and three more have been announced today, if these had been in place before those prosecutions took place, it is unlikely that all of those prosecutions would have taken place.

Oliver Letwin MP said that this was an issue as to the status of the work. Second Sight had been asked to present an interim report today. The other Spot Reviews are work in progress. However, POL was concerned about the length of time being taken and the cost. Second Sight are not sure what POL will allow them to do going forward. There is much to be done. They do not know how this will fit in to the regime that POL announced today. All Spot Reviews have elements which are complicated. They hoped that the Spot Review process would streamline the processes. However, the difficulty is getting information from departments within POL or from contractors. There are, or can be, complex issues involved, and where they are dealing with conflicts of evidence, for example in SR2. In SR2, POL have been very clear about certain matters, but the SPMR is equally clear they were told something to the contrary. Where there is a conflict of evidence, they need to step back and look for other evidence (e.g the email in relation to relevant people from 2008). However, last week, the name of the relevant POL person was identified. Before that, POL had said they had no record of any meeting. This is a potentially significant discovery for SR2. That is just one example of the possible complexities which may arise.

Second Sight also said that the SRs are a good deal more current than the MP's cases. Those relate to multiple issues and go back a long way in terms of date. However, there is one big issue which they would like to progress which is one as to user identity and Horizon logs and the XML data. There are a number of SPMRs who it is claimed were making transactions linked to their user ID and Second Sight want to explore whether there is any alternative explanation other than that the user ID definitely relates to that user.

Researcher for [MP] referred to a case which is out of time for submitting for review and asked whether it could be submitted now. JAMP said that to achieve this meeting there was an agreement with POL and Second Sight that there needed to be some cut off point. POL wishes to have a special but different procedure for other cases, possibly with the company secretary, so that cases go to a different route other than a help desk. There was then reference to the POL response, identifying three solutions, including the creation of a working party in relation to the Second Sight review, with the implication that they want to get through these cases. M?MP asked whether the working party would include Second Sight and JAMP said that he did not know. M?MP expressed concerns about this group, if Second Sight were not allowed to pursue their investigation and the team was dissipated, so that work would be done by a collaborative working party with people decided on by POL, then he thought any progress made to date would be lost. Although it might take much longer, he considered that Second Sight should go through the issues and should not let go and certainly not for some "airy fairy" working party.

JAMP said that there may well be an early parliamentary opportunity to make that point.

(?) [woman MP] referred to the POL press statement and asked if it was considered that the statement was accurate and whether it was equally true of two years ago.

Second Sight referred to page 8 of their report and to conclusion (a), but although they had found no evidence of system-wide problems with the Horizon software, they have found concerns with the Horizon system using the wider definition, which includes the associated processes. So in relation to the POL statement, there are concerns with regard to the Horizon supporting processes.

There was further reference to the POL statement and the regret in relation to the SPMRs ("...if any SPMR..."). A slightly more fulsome apology might have been more appropriate, bearing in mind that the SPMRs have suffered. This falls short of what might have been expected, particularly for SPMRs whose lives have been decimated and it would have preferred to see a more fulsome apology. Second Sight reported frequent criticisms relating to training and support which they do not consider were adequately covered and would like cover in the remaining 22 work in progress Spot Reviews.

JAMP will be issuing a statement and would work on solutions. There was reference to both civil and criminal claims. There are two issues there. One that needs to sort out the lives of those whose lives have

been decimated and also to look at the issue of independence and how this has been dealt with in the past and how it might be dealt with in the future.

Particular reference was made to Alan Bates who was referred to as "legendary", "valuable" and emphasis on his work being unpaid. The hope was expressed that he would play a part moving forwards.

M7MP asked whether POL would attend any further meeting to speak and to be available to answer questions.

JAMP said that they would be returning in the Autumn and would reconvene then and that at that meeting they would ask POL to attend to speak.

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Interim Report into alleged problems with the Horizon system

1. Introduction and Scope

1.1. Following discussions with Post Office Limited ('POL') Senior Management in June and July 2012, with the Rt Hon James Arbuthnot MP and with Alan Bates and Kay Linnell representing the Justice for Subpostmasters Alliance ('the JFSA'), Second Sight Support Services Ltd ('Second Sight') was appointed to carry out a review into alleged problems with POL's 'Horizon' System.

1.2. The remit of the Investigation/Inquiry was later defined as:

"to consider and to advise on whether there are any systemic issues and/or concerns with the "Horizon" system, including training and support processes, giving evidence and reasons for the conclusions reached".

1.3. It was also agreed that Second Sight's report would:

"report on the remit and if necessary will contain recommendations and/or alternative recommendations to Post Office Limited relating to the issues and concerns investigated during the inquiry. The report and recommendations are to be the expert and reasoned opinion of Second Sight in the light of the evidence seen during the inquiry."

1.4. It became necessary to ensure that references to "the Horizon System" were understood and agreed by all stakeholders. Was Second Sight to look only for defects in the software code of Horizon? Or, was it to take a broader view and also examine:

- a) the surrounding Operational Processes, both at branch level and in POL's central processing centres;
- b) the interfaces between the Horizon system and other systems that are the responsibility of organisations other than POL such as Camelot, the Bank of Ireland, the Co-Op, various Energy Companies and the 'LINK' system for processing Credit and Debit Card payments and withdrawals;
- c) the power supply and telecommunications equipment that connects every Horizon terminal to POL's centralised data centres;
- d) the training available to Sub-Postmasters ('SPMRs') and their staff and whether it was commensurate with the demands of the day-to-day job at the counter;
- e) the actions need to 'balance' at the end of each Trading Period ('TP') and the investigation work needed in dealing with errors and Transaction Corrections ('TCs');
- f) the level of support available to SPMRs and their staff from POL's Helpdesk;
- g) the effectiveness of POL's audit and investigative processes, both in assisting SPMRs who called for help in determining the underlying root cause of shortfalls and in providing evidence for other action by POL such as in Civil and Criminal Proceedings.

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- 1.5. In answering the question as to whether Second Sight was to only examine the narrowly-defined Horizon *software*, or the far more broadly-defined Horizon *system*, POL's own definition of 'Horizon' provided much of the answer.
- 1.6. In May 2011, POL's Information Manager defined "Horizon" as follows:

"I can advise that the name Horizon relates to the entire application. This encompasses the software, both bespoke and software packages, the computer hardware and communications equipment installed in branch and the central data centres. It includes the software used to control and monitor the systems. In addition, I can advise you that testing and training systems are also referred to as Horizon".
- 1.7. This POL definition does not include '*audit and investigative processes*', but it quickly became clear that POL's audit and investigation methods have had a profound impact on the SPMRs involved in almost all of the cases we have examined.
- 1.8. Second Sight's investigation has consequently addressed matters well beyond the narrow definition of the core *software* component of Horizon in order to ensure that we have adequately dealt with the totality of the concerns raised by SPMRs.
- 1.9. Before describing the approach adopted in this investigation, it is necessary to put the scale of the investigation in context.
- 1.10. Second Sight has been asked to investigate 47 cases submitted to either the JFSA or to the office of the Rt Hon James Arbuthnot MP. All of these submissions are highly critical of POL's Horizon system and in many cases, the way that POL has dealt with the matters reported.
- 1.11. The Horizon system involves approximately 68,000 users and processes over 6 million transactions every day. The entire population of over 11,800 branches was notified about the proposed investigation by Second Sight and this resulted in 14 additional cases being accepted for investigation. Whilst in no way minimizing the potential importance of the cases under review, this level of response suggests that the vast majority of SPMRs and branches are at least reasonably happy with the Horizon system.

2. Approach adopted

- 2.1. Second Sight has examined cases submitted from two sources. The first selection of cases were those submitted by SPMRs, with the endorsement of their constituency MP, through the office of the Rt Hon James Arbuthnot MP. There were 29 such cases.
- 2.2. The second source of cases was through the JFSA. These cases were submitted in accordance with an Agreement dated December 2012 between POL, Second Sight and the JFSA (see Appendix 5). That Agreement set a cut-off date of 28th February 2013 for the submission of suitable cases to the JFSA, or directly to Second Sight.

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- 2.3. In the event, over 60 SPMRs contacted the JFSA and 18 cases were considered to be suitable for submission to Second Sight. These 18 JFSA-sourced cases were generally simpler, more recent and better documented than the cases submitted via MPs.
- 2.4. In dealing with each case, Second Sight first requested copies of all the documents in POL's Case File. The initial plan was to interview each SPMR after all the POL-sourced documentation had been examined. This has proved to be much more difficult than was expected. Delays in producing case documentation to Second Sight have added materially to the cost of the investigation and to the time taken to complete it. The main problem here seems to be that POL does not maintain one central file for each case. Rather, documents had to be gathered from multiple internal sources.
- 2.5. Where MP sponsored cases have been subject to either Civil Recovery or Criminal Prosecution, POL's centralised Legal Department was able to supply many documents. However, we found that a significant number of cases had not progressed this far and that documentation was held in many locations within POL, including the National Business Support Centre ('the NBSC'), the Helpdesk, the Branch Support Team, the Security Team, the Former Agent Accounting Department, and Legal Services.
- 2.6. In several instances, POL's seven-year Document Retention Policy has meant that little or no documentation was available for Second Sight to examine. The same retention policy applies to the underlying Horizon computer data. In a number of cases we were provided with POL created documents by SPMRs, where POL had been unable to supply the same document, even though it was within the 7 year retention period.
- 2.7. After examining all of the available documents and in some cases the Horizon computer data relating to each case, Second Sight has been making contact with each SPMR in order to obtain, through telephone calls and face-to-face interviews, the SPMR's version of events. Second Sight then summarised the SPMR's assertions into one or more 'Spot Reviews'. To date, 29 *Spot Reviews* have been created by Second Sight and other *Spot Reviews* are planned. Ten *Spot Reviews* have been sent to POL and a formal response received. Nineteen *Spot Reviews* are currently 'work in progress'.

3. The concept of a '*Spot Review*'

- 3.1. It became clear at an early stage in the investigation that it would not be efficient or cost effective for Second Sight to examine all of the issues raised by SPMRs or covered in POL's Case Files.
- 3.2. Accordingly, and with the consent and approval of both the JFSA and individual SPMRs, Second Sight conducted a '*fast track*' review of the available information in each case and identified the key issues that were relevant to the remit of the Investigation. Each key issue was then dealt with as a *Spot Review*. A case with multiple issues would give rise to multiple *Spot Reviews*, each of which would be dealt with on an individual basis.
- 3.3. It was agreed by POL, Second Sight, the JFSA and the Rt Hon James Arbuthnot MP that any report issued by Second Sight would maintain anonymity with regard to the identity of individual SPMR cases. Accordingly, this Report does not reveal the identity of any of the cases being considered. In

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- all instances where POL was asked to respond to specific issues, the SPMR's identity was revealed to POL, but only after the SPMR's permission had been obtained.
- 3.4. This approach to *Spot Reviews* was intended to be a self-contained, easy to understand procedure, free from unexplained acronyms and backed up by SPMR supplied evidential material. Each *Spot Review* was then submitted to POL for a formal response. The POL response was then discussed with both the SPMR and the JFSA and an attempt made to reach agreement and *closure* between POL and the SPMR, as to the issues dealt with in each *Spot Review*.
 - 3.5. Regrettably, no such agreement and closure has been achieved to date. In the face of assertions, by both the SPMR and by POL, supported in many cases by only partial or conflicting evidence, Second Sight has attempted to find out what really happened. In most of the *Spot Reviews* investigated, we have been able to find additional information that has been of assistance in understanding what actually happened.
 - 3.6. This Interim Report covers 4 *Spot Reviews* where we have been able to reach a preliminary conclusion or at least make substantial progress on the matters being reviewed.
 - 3.7. As *Spot Reviews* were prepared, discussed and responded to by POL, Second Sight was able to see a number of '*thematic issues*' that were of concern to many of the SPMRs we have had contact with. These frequently reported issues, some of which are described in Section 7 of this Interim Report, will be addressed in more detail in the Final Report.

4. Involvement of the JFSA:

- 4.1. At the request of the MPs representing their SPMR constituents and with agreement from POL, Second Sight has worked closely with Mr Alan Bates of the JFSA and with the JFSA's appointed Forensic Accountant Kay Linnell. This developed into a sound working relationship and Second Sight wishes to put on record its thanks to both Mr Bates and Ms Linnell for their help and professional conduct throughout the investigation.

5. Spot Reviews and Responses from POL:

- 5.1. This Interim Report deals with just 4 of the 29 *Spot Reviews* so far prepared by Second Sight. These 4 *Spot Reviews* deal with events that are typical of the matters reported to Second Sight by many of the SPMRs we have had contact with. They also relate to matters that appeared, both at the time they were issued to POL and when the selection was made for inclusion in this Interim Report, to be particularly relevant to the remit of the investigation.
- 5.2. Second Sight has asked POL to deliver *Spot Review* responses that would prove as easy to understand as the *Spot Reviews* themselves; that addressed the spirit, as well as the letter, of the SPMRs' complaints; and that were backed up by evidence.
- 5.3. Whilst the *Spot Review* responses received from POL can be seen to be thorough, they are long and highly technical documents. In some cases, they present counter-assertions, based on Standard

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Operating Procedures and Controls, rather than tangible evidence of what actually happened. Accordingly, it has been necessary to summarise and simplify the responses received.

- 5.4. Our experience over many years, shows that even apparently robust controls sometimes fail to work, or can be circumvented by a determined and skilful person. Second Sight is therefore seeking further evidence in support of POL's responses to some of the issues covered by the *Spot Reviews* dealt with in this Interim Report.
 - 5.5. It is of course hard for POL to prove the negative (i.e. that controls have not been circumvented) but it is only fair to say that POL now finds itself in the same situation that has faced all of the SPMRs who have submitted cases. They too, were unable to prove that the shortages or transactions that they reported to POL, and in respect of which they sought POL's help, were not the result of their own (or their employees') errors or criminal activity. In every case we have looked at, only limited assistance has been provided to SPMRs by POL.
 - 5.6. In the 4 *Spot Reviews* covered by this report, POL has only acknowledged minor failings in the implementation of its procedures and processes, or in other relevant areas. It has agreed in principle to a number of process improvements relating to the matters under investigation by Second Sight, and some of these have been implemented already.
 - 5.7. Many of the SPMRs we have dealt with remain aggrieved and dissatisfied with what they see as POL's defensive and unsympathetic response. Whereas we had expected that some form of closure would be reached between POL and the SPMR associated with each *Spot Review*, this has so far not been achieved.
6. Did defects in Horizon cause some of the losses for which SPMRs or their staff were blamed?
- 6.1. There is still much work to be done on the cases Second Sight has been asked to investigate. We have concluded in one of the four *Spot Reviews* covered by this Interim Report (*Spot Review SRO1*) that, although the Horizon system operated as designed, the lack of timely, accurate and complete information presented to the SPMR was a significant factor in his failing to follow the correct procedure.
 - 6.2. In that incident, shortcomings in the branch's primary and fall-back telecommunications equipment exposed a weakness that led to a poor counter-level experience both for the SPMR and his customer.
 - 6.3. We also note, in *Spot Review SR22*, that POL made a change to its standard operating procedures for Scratch Cards, just a few days after the SPMR was suspended. It is possible, that if this change had been implemented earlier, many of the problems would not have occurred.
 - 6.4. In the course of our extensive discussions with POL over the last 12 months, POL has disclosed to Second Sight that, in 2011 and 2012, it had discovered "defects" in Horizon online that had impacted 76 branches.

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- 6.5. The first defect, referred to as the "*Receipts and Payments Mismatch Problem*", impacted 62 branches. It was discovered in September 2010 as a result of Fujitsu's monitoring of system events (although there were subsequent calls from branches). The aggregate of the discrepancies arising from this system defect was £9,029, the largest shortfall being £777 and the largest surplus £7,044. POL has informed us that all shortages were addressed at no loss to any SPMR.
- 6.6. The second defect, referred to as the "*Local Suspense Account Problem*", affected 14 branches, and generated discrepancies totalling £4,486, including a temporary shortfall of £9,800 at one branch and a surplus of £3,200 at another (the remaining 12 branches were all impacted by amounts of less than £161).
- 6.7. POL was unaware of this second defect until, a year after its first occurrence in 2011, it re-occurred and an unexplained shortfall was reported by an SPMR.
- 6.8. POL's initial investigations in 2012 failed to reveal the system defect and, because the cause could not be identified, the amount was written off. Fujitsu looked into the matter early in 2013 and discovered, and then corrected, the defect.
- 6.9. It seems however, that the shortfalls (and surpluses) that occurred at the first occurrence (in 2011) resulted in branches being asked to make good incorrect amounts.
- 6.10. POL has informed us that it has disclosed, in Witness Statements to English Courts, information about one other subsequently-corrected defect or "bug" in the Horizon software.

7. Frequently reported issues

- 7.1. It has become clear that whereas the Horizon system appears to achieve its intended purpose almost all of the time and operates smoothly for most SPMRs and their staff, some combinations of events can trigger situations where problems occur.
- 7.2. The following issues have been reported to us by multiple SPMRs as being of particular concern about the Horizon system:
 - a) A multi-product system that is far more complex and demanding than, for example, that found in a typical high street bank;
 - b) Multiple transactional interfaces ('hand-offs') to systems outside of Horizon such as Lottery Scratch Card and Bank of Ireland ATMs that cause repeated and possibly large shortfalls that take undue amounts of time to investigate and resolve;
 - c) Unreliable hardware leading to printer failures, screen misalignment (pressing one icon sometimes results in the system selecting an incorrect icon) and failed communications links;
 - d) The complexity of end of Trading Period ('TP') processes and the lack of a 'suspense account' option which would allow disputed transactions to be dealt with in a neutral manner;
 - e) Inexperienced trainers and gaps in training coverage;

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- f) The lack of some form of on-site Supervision and Quality Control similar to that made available to staff employed in POL's Crown Offices;
 - g) The receipt of centrally input, overnight 'corrections' and other changes allegedly not input by SPMRs or their staff;
 - h) Inadequate Helpdesk support, with responses that are 'script-based' and sometimes cause further or greater problems;
 - i) POL investigation and audit teams that have an asset-recovery or prosecution bias and fail to seek the root cause of reported problems;
 - j) A contract between SPMRs and POL that transfers almost all of the commercial risk to the SPMRs, but with decreasing support being provided. In its risk reward decision making, POL benefits from any savings, while SPMRs may suffer increased risk.
- 7.3. We have read all of the examples of problems reported to us by the SPMRs we have contacted. We can't help concluding that had POL investigated more of the "mysterious shortages" and problems reported to it, with the thoroughness that it has investigated those reported to it by Second Sight, POL would have been in a much better position to resolve the matters raised, and would also have benefited from process improvements.
- 7.4. It may be that a significant limitation in the way that POL responds to matters reported to it are the terms of reference for the POL Investigations Division. The standard contract between POL and SPMRs states:
- "The Investigation Division does NOT enquire into matters where crime is not suspected."*
- 7.5. This appears to suggest that POL does not provide any investigation support to SPMRs, except where criminality is suspected. The cases we have examined show that POL does sometimes provide limited investigative support to SPMRs reporting problems, but clearly, POL's ability to do this is constrained.
- 7.6. It is also unfortunate, in our view, that when POL does investigate cases, there is often a focus on 'asset recovery solutions' without first establishing the underlying root cause of the problem. This is also an example of a missed opportunity to be in a much better position to resolve problems and to benefit from process improvements.
- 7.7. Another issue raised, by some of the SPMRs that we have had contact with, is the allegation that the only time they were provided a copy of the full contract between POL and SPMRs, was when POL commenced litigation or recovery actions. This is contrary to POL's policy and procedures and enquiries are underway to find out what has happened in the cases where this allegation has been made.
- 7.8. The 4 *Spot Reviews* where we have been able to reach preliminary conclusions, or at least make substantial progress in investigating the matters raised, are attached at Appendices 1 to 4.

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8. Preliminary Conclusions

- 8.1. This is an Interim Report and there is much work still to be done. Any conclusions reached at this point will need to be updated in the light of new information that arises as the investigation continues.
- 8.2. Our preliminary conclusions are:
- a) We have so far found no evidence of system wide (systemic) problems with the Horizon software;
 - b) We are aware of 2 incidents where defects or 'bugs' in the Horizon software gave rise to 76 branches being affected by incorrect balances or transactions, which took some time to identify and correct;
 - c) Occasionally an unusual combination of events, such as a power or communications failure during the processing of a transaction, can give rise a situation where timely, accurate and complete information about the status of a transaction is not immediately available to a SPMR;
 - d) When individual SPMRs experience or report problems, POL's response can appear to be unhelpful, unsympathetic or simply fail to solve the underlying problem. The lack of a 'user forum' or similar facility, means that SPMRs have little opportunity to raise issues of concern at an appropriate level within POL;
 - e) The lack of an effective 'outreach' investigations function within POL, results in POL failing to identify the root cause of problems and missing opportunities for process improvements;
 - f) The end of Trading Period processes can be problematic for individual SPMRs, particularly if they are dealing with unresolved Transaction Corrections ('TCs'). The lack of a 'suspense account' option means that it is difficult for disputed TCs to be dealt with in a neutral manner.

GRO

Ian R Henderson CCE, CISA, FCA

8 July 2013

GRO

Ron Warmington CFE, FCA

Second Sight Support Services Ltd

Interim Report into alleged problems with the Horizon system

Spot Review SR01

Appendix 1

- 1.1. The SPMR reports that there were intermittent internet connectivity problems on 4th October 2012. Online payments and withdrawal transactions were sometimes successful, but also failed on occasions. It is likely that Horizon was partially operating through its back-up (mobile phone) connection. Some card payments had to be attempted two or three times before being accepted. At approximately 10:32 hrs, a customer tried to pay his £76.09 telephone bill with his bank debit card, but was not successful. The customer then withdrew £80.00 cash and used this to pay the telephone bill.
- 1.2. The SPMR stamped the customer's telephone bill as evidence of receipt of payment, returning change of £3.91. Several weeks later, the customer returned from holiday to find his telephone had been cut off due to non-payment of the bill. The SPMR's examination of the Transaction Log showed that all components of the transaction had been reversed by POL. The SPMR states that he did not initiate those reversals, nor did he receive any reversal notifications.
- 1.3. The SPMR raised this as an issue with POL but was told that due to cost issues the Horizon transaction data, necessary to fully investigate the matter, could not be requested. The SPMR felt that it was implied that he had stolen the money when he was told to make good the shortage. This meant that 2 people had paid the telephone bill: the customer who handed cash to the SPMR, and also the SPMR on instructions from POL to make good the shortage, after POL centrally had paid the bill.
- 1.4. The SPMR was subsequently informed that he should have had a surplus of £76.09 due to the reversal of the transactions.
- 1.5. POL's 10-page response to Second Sight asserts that the *Spot Review* does not demonstrate any failing in Horizon and that the root cause of the difficulties suffered by the SPMR was his failure to follow the on-screen and printed instructions given by Horizon. POL states that the SPMR should have realised that some transactions had been automatically reversed because:
 - a) when the transactions in question first failed to be processed (because Horizon could not get a response from the Data Centre), Horizon asked the SPMR whether he wished to cancel or retry the transactions in response to which the SPMR opted to retry the transactions;
 - b) when the transactions failed again, the SPMR opted to cancel the transactions;
 - c) Horizon then automatically disconnected and printed a "disconnect" receipt that showed the transactions that had been automatically reversed;
 - d) a standard customer receipt was not produced and this should have told the SPMR that the full transaction had not proceeded;
 - e) following the disconnect, the SPMR was required to log back on and, as part of the standard recovery process, Horizon printed a "recovery" receipt which again showed the transactions that had been reversed and those that had been recovered.

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- 1.6. POL's response states that there were 4 attempts (at roughly 45 second intervals) to send the completed basket of transactions to the Horizon Data Centre. All attempts used a mobile phone (back-up) connection. The SPMR's records all show these connection attempts to have failed. However, from the Data Centre's perspective, one of the attempts did result in all of the data in the Horizon transaction 'basket' being successfully transmitted to the Data Centre but, due to the connectivity issues, the branch did not receive a confirmation of this at the time from the Data Centre.
- 1.7. The cash withdrawal transaction for £80 could not be cancelled as this had already been processed by the Bank.
- 1.8. The net effect of all of this was that, whilst the customer's telephone bill was not paid, the £80 debit to his bank account was correctly processed, even though this was not reported to the SPMR at the time this transaction was entered on the Horizon terminal. The success of this part of the transaction was only notified to the SPMR after the customer had left the Branch. It took approximately 5 minutes for the retry, recovery and reconnection processes to finish.
- 1.9. Procedurally, the SPMR was at fault here because he was not meant to allow the customer to leave the counter until Horizon had finished its Recovery Processing.
- 1.10. The SPMR had stamped the customer's telephone bill as proof that it had been paid, at 10:32 hrs, but he should not have been given it to the customer until the Horizon system had printed out all of the Session Receipts. This did not occur until 10:36 hrs, which was after the customer had left with his stamped telephone bill. It was therefore impossible for the SPMR to return the customer's £76.09 or to retrieve the receipt-stamped telephone bill.
- 1.11. Second Sight is more sympathetic to the SPMR's position than POL appears to have been. POL's view is that the Horizon system operated as designed. In our view, timely, accurate and complete information was not presented to the SPMR at the time the transaction occurred. The delay in providing this information was a significant factor in the SPMR failing to follow the correct procedure.
- 1.12. At the time this problem occurred, there were multiple telecommunications failures in the branch's main data link and Horizon was using a mobile phone link to communicate transaction data over a poor quality signal.
- 1.13. When operating, in that degraded mode, with a complex multi-part transaction (involving communications to the banking system as well as to Horizon), the Horizon system did operate in accordance with its design.
- 1.14. But, not being able to reverse the customer's banking transaction (the £80.00 debit card withdrawal), Horizon relied on the SPMR being able to give the customer all of his money back and either turning him away with his telephone bill unpaid or starting the whole process again.
- 1.15. Even if the customer had still been present when the recovery processes were completed (five minutes after being handed his stamped telephone bill) and even if the SPMR had been able to

Interim Report into alleged problems with the Horizon system

immediately work out what had happened and what remedial actions were necessary, this would not amount to an acceptable SPMR/Customer experience. It also raises questions about the suitability of the mobile phone backup connection and whether a more resilient service should be provided.

Interim Report into alleged problems with the Horizon system

Spot Review SR05

Appendix 2

- 1.1. This SPMR states that on Tuesday 19th August, 2008 he observed an individual in the basement (or a boiler room type area with lots of pipe work) of the Fujitsu office in Bracknell who demonstrated an ability to pass transactions directly into the Horizon system and in so doing to alter, in real time or overnight, the recorded holdings of Foreign Currency in POL Branch Offices. The SPMR also stated that this person, after altering a branch's cash balance, then "*made light of it*" saying "*I'd better reverse that entry now or he'll have a shortage tonight.*"
- 1.2. The SPMR further states that the person did this by generating an outgoing remittance for a branch (known as a 'Rem Out'). The SPMR explained that what he observed was contrary to POL's repeated reassurances that any form of '*remote access*' to Horizon transactions at branch level was possible.
- 1.3. Of potential significance is the alleged comment that "*he'll have a shortage tonight.*" This could mean that the alleged transactions were not directly input to Horizon but to some other system that was linked to Horizon by way of overnight batch processing, or in some other way.
- 1.4. To put this allegation in context, over two years later, in a 7th December 2010 letter to Alan Bates (Chairman of the JFSA), signed by Mr. Edward Davey, MP (the then Minister for Employment Relations, Consumer and Postal Affairs), Mr. Davey gave the following assurance:

"I recognise that the core of the JFSA's concerns relates to the Horizon system to which you attribute the financial discrepancies and shortages which have led to a number of subpostmasters having their contracts terminated and subsequent court action. However POL continues to express full confidence in the integrity and robustness of the Horizon system and also categorically states that there is no remote access to the system or to any individual branch terminals which would allow the accounting records to be manipulated in any way."

POL's response states that:

- a) In August 2008, the basement of Fujitsu's building did contain a Horizon test environment with access to four test versions of Horizon;
 - b) It is this test environment that is believed to have been witnessed by the SPMR;
 - c) This test environment was not physically connected to the live Horizon system so it was not physically possible for the alleged transactions to have occurred. It is possible that someone showed the SPMR some form of adjustment to the test environment that was misunderstood.
- 1.5. Simply stated, POL has rejected this allegation, stating that none of its staff who were present at the alleged 19th August 2008 meeting, had any access to live data.
 - 1.6. POL has suggested that its employee may indeed have used the phrase "*this is the live system*" because, in addition to the test version of the then un-released new version of Horizon ('HNG-X') being accessible from there, so was a test version of the then-current and *live* (old) Horizon system.

Interim Report into alleged problems with the Horizon system

- 1.7. It is unfortunate that, due to the length of time that has elapsed since the alleged visit, neither POL nor Fujitsu were able to identify any individual who met with the SPMR on the date of his alleged visit to Bracknell.
- 1.8. However, on 1 July 2013, the SPMR managed to find an email proving that the meeting took place and identifying one of the POL employees involved. Further urgent enquiries about this matter are continuing.
- 1.9. In view of this conflict of evidence, Second Sight requested and was provided with the email records of 7 POL employees believed to have been working in the Fujitsu office at Bracknell at the relevant time.
- 1.10. Unfortunately, due to a change in email systems, emails from 2008 have not yet been provided to us, but we have reviewed the relevant email records for 2011. This review has shown:
 - a) A number of different teams of POL employees were working in the Fujitsu office in Bracknell in 2011 and possibly earlier. These teams were located on the Ground Floor and the 2nd and 4th Floors of the Fujitsu office.
 - b) An email sent to a number of POL employees in April 2011, including a member of the Testing team in Bracknell, included the following comment:

"Although it is rarely done it is possible to journal from branch cash accounts. There are possible P&BA concerns about how this would be perceived and how disputes would be resolved."
- 1.11. "P&BA" refers to 'Product and Branch Accounting', which is a team within POL that is responsible for the back-office accounting system.
- 1.12. POL has told Second Sight that the comment noted above describes a method of altering cash balances in the back-office accounting system, not Horizon. We note however that any changes to Branch Cash Account balances in this way would be subsequently processed in Horizon using the Transaction Correction ('TC') process. This would be notified to SPMRs and requires their consent in order for the TC to be processed. The TC process typically runs on an overnight basis and is necessary to ensure that the back-office accounting system remains synchronised with the Horizon system.
- 1.13. Second Sight notes that this method of ultimately adjusting branch cash accounts in Horizon is similar, but not identical to, what was described by the SPMR, albeit in an indirect rather than a direct way. We have subsequently been told that none of the POL employees working in Bracknell in 2008 had access to the back-office accounting system.
- 1.14. We are left with a conflict of evidence on this issue and our enquiries are continuing, particularly in the light of the new information confirming that the meeting on 19th August 2008 did in fact occur.

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Spot Review SR21

Appendix 3

- 1.1. This SPMR reports a situation where, on 4th Nov 2009, the Horizon system appears to have generated a series of transactions, reversing four Positive Stock Adjustments ('SAPs') that she had entered at 09:04 hrs that morning. The SAPs related to 15,576 stamps left over from the previous Christmas.
- 1.2. The aggregate value of the four SAPs input by the SPMR was £5,577.93. Subsequently, 9 separate Negative Stock Adjustments (transaction reference: 'SAN') appear to have been generated automatically by Horizon. Those nine entries total £6,892.23 which equate to 16,834 stamps. All nine entries were timed at 12:22 hrs and show the SPMR's Identification Code (i.e. as though she had entered them).
- 1.3. The SPMR, however, denies executing any of these SAN adjustments. She states that she was unaware of their existence until long after the Audit of her Branch. She has no idea whether they had any impact on the shortfall attributed to her.
- 1.4. We have found no evidence that POL investigated this combined set of transactions or, if they were investigated, that the findings were ever discussed with the SPMR.
- 1.5. A POL Auditor on 6th January 2010, after becoming aware of the large quantity of excess stamps held by this Branch, asked the SPMR:

"Why didn't you declare your stamps?"
- 1.6. The SPMR states that she told the POL Auditor that she did declare the stamps using the SAP procedure. It is not clear whether the eventual £9,616.66 shortfall, for which POL held the SPMR accountable, included the impact of those stamps.
- 1.7. The SPMR is adamant that she raised this issue with the POL Auditor but states that she was never provided with any answers. Neither the problem with the stamps, nor the SPMR's assertions about intermittent problems with the PIN Pad, raised both at the time of the Audit and in subsequent interviews, seem to have been adequately addressed by POL's investigators.
- 1.8. POL's 3-page response to this *Spot Review* states that:
 - a) Horizon does not generate automatic stock adjustments. The function simply does not exist within Horizon;
 - b) The stock adjustments questioned in this *Spot Review* were all recorded against the SPMR's user ID which demonstrates that those transactions were manually conducted in the branch;
 - c) Even if there were erroneous stock adjustments, these adjustments could not cause the SPMR to suffer a shortfall due to the "double entry" balancing process inherent in Horizon.
- 1.9. POL's response does suggest a possible explanation as to what happened here, stating:

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"The appearance of positive and negative stock adjustments for stamps made by SPMRs on the same day reflects a common non-conformance issue in the manner by which SPMRs inputted data. It led to significant branch conformance instructions in 2009 to encourage branches to record their rationale for why they were using the stock adjustment function."

and continuing:

"Adjustments of the type shown at this branch are indicative of a situation where branches prefer to sell all varieties of 1st class stamps via the same icon (i.e. whether the stamps are standard 1st class or special issue commemorative 1st class). Post Office requires sales via the correct icons to properly drive sales, remuneration and billing data. However, branches found it easier to serve customers by adjusting stock out of "Specials" into "Standard" categories and then making sales from those Standard icons. It is however impossible for Post Office and Fujitsu to say for certain why the SPMR made stock adjustments in this particular branch."

- 1.10. Once again, we are dealing with a conflict of evidence where the SPMR states that she did not enter the stock adjustments and POL states that the Horizon system could not have entered them either. POL has, at Second Sight's request, produced the underlying Horizon detailed transaction data and it will be examined to try to establish what really did happen.
- 1.11. In any event, POL did not arrive at agreement with the SPMR as to what had happened. This failure to arrive at closure has left this SPMR with the powerful and lasting conviction that her "mysterious £9,616.66 shortfall" was wholly or partially accounted for by those transactions that she says she did not enter, even though the system says, on the basis of her User ID, that she did.
- 1.12. Further contact with this SPMR indicates that she remains confused as to what really happened so it is possible that the £9,616.66 shortfall was the result of mistakes made by her or by her staff. Further investigative work is therefore needed and, as yet, Second Sight cannot reach a firm conclusion on this case.

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Spot Review SR22

Appendix 4

- 1.1. This SPMR reports a situation where the Camelot and Horizon records for 'Remitted In' (or 'Remmed-in') Camelot Scratch Cards ('Instants') were out of synchronisation and were incorrectly shown in Horizon. The SPMR claims that the material differences between the two systems resulted in substantial losses being incurred and that POL failed to fully investigate and/or to communicate its findings in respect of those differences.
- 1.2. As an example of this, the SPMR reports, that on 17th February 2010, the Horizon print-out of 'Remmed-in' cards shows £1,280 worth of cards (8 full packs) whereas a POL-produced Excel spreadsheet shows that, on that date, £2,080 worth of cards (13 full packs) were Remmed in. The difference here is £800, which was a shortfall that the SPMR had to make good.
- 1.3. It is clear that this SPMR experienced numerous problems with Scratch Cards and a review of TCs issued to the branch shows that, between 3rd November 2009 and 29th September 2010 (the period during which unexplained losses were occurring at the branch) 36 of the 47 TCs issued to this branch related to Scratch Cards. Also, 13 of those 36 TCs were for amounts exactly divisible by £160 (i.e. the value of a full pack of Scratch Cards).
- 1.4. Those 13 TCs comprised 4 Debit TCs totalling £2,560 and 9 Credit TCs (which serve to reduce the branch's stock value) totalling £7,840.
- 1.5. Together therefore, the 13 TCs produced a net deficiency of £5,280. In pure monetary terms this was approximately 36% of the total shortfall of £14,842 that POL claimed, in the ensuing criminal prosecution, had been stolen by the SPMR.
- 1.6. POL seems to have been aware, well before February 2010, of errors made by many SPMRs in dealing with Scratch Cards. For example, an article in the 17-23 January 2008 Issue of 'Branch Focus' had warned SPMRs that:

"In the last three months there have been over 1,100 Transaction Correction notices issued to branches to a value of £744,000".
- 1.7. We have established that during the relevant period, all packs of Scratch Cards should have been activated on the Camelot terminal before being Remmed-in to Horizon. The SPMR asserts that she was instructed not to do that by POL.
- 1.8. It also transpires that a change to standard operating procedures for Scratch Cards took place a week after this particular SPMR was suspended in September 2010. From this point, SPMRs were no longer required to remit packs of Scratch Cards into Horizon.
- 1.9. It follows, that after September 2010 it was impossible to have packs of Scratch Cards recorded in Horizon whilst awaiting activation. It is also clear that a balance should be struck before the start of trading on a Thursday morning, rather than at 17:30 hrs on a Wednesday evening, as had been the standard practice of this SPMR.

Interim Report into alleged problems with the Horizon system

- 1.10. In its response to this *Spot Review*, POL says that it cannot find any evidence that there is a problem with the Horizon system with regard to Remmed-in Scratch Cards.
- 1.11. POL also states that, during the period being examined in this *Spot Review*, if SPMRs had correctly Remmed-in Scratch Cards to the Horizon system, the final figures recorded in the Horizon system at the end of each day would match the final figure in the Camelot system for the activation of Scratch Cards.
- 1.12. POL's investigation has established that, on 17th February 2010, there were 2 remittance sessions relating to Scratch Cards at this branch. It follows, says POL, that two receipts would have been automatically produced by the Horizon system. The discrepancy in the figures on that day resulted from the SPMR presenting only one of the two receipts. The SPMR, however, disputes POL's assertion, stating that not only did she not make that second entry in Horizon but that she can't recollect ever Remming-in two Scratch Card entries within a 5 minute period.
- 1.13. POL has also told us that:

"Further to the discovery of large Scratch Card losses at Post Office branches (for example £147,000 in aggregate losses were discovered following the audit of 20 branches in and around May 2009), a process change was rolled out during January and February 2012. This process change was designed to significantly reduce loss/waste associated with Scratch Cards".
- 1.14. The SPMR was charged with Theft and False Accounting but the Theft charge was dropped on the basis that the SPMR pleaded guilty to False Accounting. The SPMR was convicted on the False Accounting charge and an order made to repay the £14,842, plus costs of £1,000 and 120 hrs of Community Service. The total of £15,842 was repaid before the court-assigned deadline.
- 1.15. The key issue here, that seems to have been the root cause of this branch's frequent Camelot/Horizon problems, was the difference between the opening hours of the shop and its Post Office Counter. The shop was open from 06:30 hrs until 21:30 hrs from Monday to Saturday and from 08:00 hrs until 21:30 hrs on Sundays, whereas its Post Office counter was only open from 09:00 to 17:30 on Monday to Friday and from 09:00 to 12:30 on Saturdays.
- 1.16. The difference in opening times, particularly on Wednesdays when balancing (incorrectly) took place, and at the end of each Trading Period, meant that the shop was selling Scratch Cards both before, and then long after, its Post Office counter (and therefore the Horizon system) was able to record them.
- 1.17. It was perhaps inevitable, in 'open-all-hours' outlets like this one, that the Horizon and Camelot systems would be 'out of sync' a great deal of the time. It took some time for POL to recognise that its standard operating procedure was presenting a real challenge to this type of retail outlet.
- 1.18. Second Sight notes that the February 2012 system change eliminated the possibility of synchronisation errors between the two systems. This was after a number of interim process improvements.

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- 1.19. The fact that the synchronisation process between the two systems is now far better than it was in 2010 seems to give some support to the SPMR's assertion that the then-existing process was deficient and that her consequent errors were a material factor in the confusion that ultimately led to her conviction for False Accounting.
- 1.20. Further investigative work is needed to get to the bottom of this complex matter.

RAISING CONCERNS WITH HORIZON

Introduction - The Purpose of this Document

This is a paper which has been issued by the agreement of Post Office Limited and the Justice for Subpostmasters Alliance (JFSA).

Post Office Limited is concerned to hear about and determined to thoroughly and even-handedly investigate cases where there have been persistent assertions that the Horizon system (Horizon) may be the source of unresolved shortages in Post Offices.

Post Office Limited cares about its agents, the thousands of subpostmasters and subpostmistresses (SPMRs) operating branches across the land for the benefit of the community. Post Office Limited is committed to the highest standards of corporate governance, openness, probity and accountability. It is happy to be sensibly challenged and believes this to be a good thing.

Post Office Limited also acknowledges that there may be a concern that some SPMRs might not express their concerns because they feel that speaking up would be detrimental to their position, that they may also fear that they will be harassed or victimised if they speak out, and that in these circumstances they may prefer to ignore their concerns than to report them.

Post Office Limited would like to take this opportunity to emphasise that these fears are unfounded. Although SPMRs are not employees of Post Office Limited, Post Office Limited takes seriously any such allegations.

Therefore Post Office Limited, working with JFSA, is setting out in this document a process where you can raise concerns regarding Horizon, and feel comfortable about doing so. Any investigation of any concerns which you may raise will not influence or be influenced by any disciplinary or network transformation actions that already affect you.

This process also applies to all Post Office Limited employees, contractors and agency staff working with Horizon for Post Office Limited.

In summary this document aims to:

- reassure you that you should have no fears about raising any concerns over Horizon, including over victimisation and reprisals;
- provide you with a process for raising any such concerns;
- demonstrate to you that your concerns will be taken seriously and that you will get a response to your concerns; and
- give you options if you are still not satisfied.

However Post Office Limited takes deliberate fraud, dishonesty and illegal conduct against it very seriously, and has a duty to protect Post Office money and take action if it has reasonable suspicions regarding the same. So you should only raise your concerns through this process in good faith, and not frivolously, maliciously or for personal gain.

How to voice your concerns

There are two steps you can take to voice your concerns. You can either contact JFSA in the first instance (see (A) below), or you can go directly to Second Sight Support Services Limited (Second Sight), an independent third party which is already undertaking a review of several Horizon cases in consultation with the Right Honourable James Arbuthnot MP (see (B) below).

(A) Initial Steps you can take with JFSA

1. You can discuss any concerns with JFSA and/or its advisers (contact details at jfsa.org.uk). JFSA undertakes to treat these discussions as confidential. It is then your decision as to whether or not you wish to pursue your concerns through the Inquiry Route set out in Section B below.
2. If you decide to discuss your concerns with JFSA, you should make sure you gather all your evidence together including all relevant documents, transaction references, helpline references, copies of correspondence, contact details and an outline of your concerns and any subsequent discussions with Post Office Limited. You should retain all original documents at this time although they may be required later.
3. You should provide JFSA with photocopies or PDF copies of all relevant documents, which will be examined by JFSA and/or JFSA's advisers.
4. At this time JFSA undertakes that it will keep all information strictly confidential and neither Post Office Limited nor Second Sight will be made aware of any discussions with or submissions to JFSA. JFSA undertakes not to reveal any details about you, your FAD code or branch location to Post Office Limited until JFSA agrees with you that your concerns will be raised as part of the Inquiry.

(B) The Inquiry Route - an Overview

1. The Inquiry will be carried out by Second Sight within a "no blame" framework.
2. If you are a Horizon user (whether as a Post Office Limited employee, contractor or a former or existing subpostmaster), you can submit your experiences of and concerns with Horizon for consideration under the Inquiry through JFSA or by contacting Second Sight at Tythe Farm, Mangersbury, Cheltenham, Gloucestershire GL54 1HR. You must do this by 28 February 2013.
3. Except in a case where deliberate fraud, dishonesty or illegal or unlawful conduct is suspected, no information voluntarily submitted for the Inquiry in good faith will be used for any purpose other than the Inquiry. However, Second Sight may

pass that information to Post Office Limited to enable Post Office Limited to respond to any issues or questions arising out of the Inquiry.

(C) The Inquiry - the Detail

Details of the Remit, Conduct and Output of the Inquiry are set out in the Appendix to this document.

Taking matters further

If for any reason you are not satisfied with the findings and wish to take matters further, you are of course free to pursue other avenues which JFSA can help you with.

Equally, if Post Office Limited has good reason to suspect that there may indeed have been fraud, dishonesty or other illegal or unlawful conduct, it may decide to pursue such matters in the civil or criminal courts.

Dated:

Issued by and on behalf of Post Office Limited

Signed **GRO**

Issued by **GRO**

Signed

Issued by and on behalf of Second Sight Support Services Limited

Signed **GRO**

APPENDIX

The Second Sight Inquiry – the Detail

The Remit of the Inquiry

The remit of the Inquiry will be to consider and to advise on whether there are any systemic issues and/or concerns with the "Horizon" system, including training and support processes, giving evidence and reasons for the conclusions reached.

The Inquiry is not asked to investigate or comment on general improvements which might be made to Horizon, or on any individual concern raised (see below) save to the extent that it concludes that such investigation or comment is necessary to address the remit.

The Inquiry is not a mediation or arbitration. It is not intended to resolve or affect any dispute there may be between any individual Horizon user and Post Office Limited.

The Conduct of the Inquiry

1. Submission of concerns

As highlighted, you can raise concerns directly with Second Sight. However, you must do so by 28 February 2013.

By submitting a concern you will have agreed that it may be taken forward into the Inquiry process, and that as a consequence Post Office Limited may become aware of the content of the concern.

When submitting a concern, you should seek to ensure that you include all of the relevant facts of your experience of Horizon. You should include a written summary of the concern, all relevant documents, contact details, transaction references, helpline references, copies of correspondence, an outline description of the error incident and any subsequent discussions with Post Office Limited.

Second Sight will decide whether it will investigate an individual concern in detail as part of the Inquiry, having regard to the remit. Second Sight may consult JFSA in connection with this decision. The Inquiry will not consider any concern which becomes the subject of a civil or criminal court case.

2. No Blame Framework

If:

- your concern is submitted in good faith;
- you honestly and reasonably believe at the time of submission that the facts it contains are substantially true and complete, so far as you know;

- the concern is not submitted with the intention of making personal gain (for the avoidance of doubt this does not include the SPMR believing or hoping that SPMRs generally may benefit from the outcome of the Inquiry); and
- the concern does not reveal conduct which is or which is likely to amount to fraud or any other criminal offence, or which may give rise to a civil claim

and subject to there being no overriding public interest to the contrary, Post Office Limited will not subject you to any detriment either as a result of having submitted a concern, or as a result of Post Office Limited becoming aware of any information contained within a concern. For the avoidance of doubt, information already known to Post Office Limited at the time that the concern is submitted may continue to be used by Post Office Limited for any purpose.

3. Establishment and conduct of Inquiry

Post Office Limited will pay Second Sight to conduct the Inquiry within a total budget agreed between Post Office Limited and Second Sight. Second Sight will be contractually obliged to complete the Inquiry within the agreed total budget, and both Post Office Limited and JFSA will co-operate with Second Sight to facilitate this. If the agreed total budget is or is likely to be reached before a report has been published, Post Office Limited and JFSA will meet to discuss options.

All information received by Second Sight from whatever source in connection with the Inquiry will be held confidentially and will only be used for the purposes of the Inquiry.

JFSA can provide Second Sight with anonymised copies of any or all concerns to enable Second Sight to conduct the Inquiry. Second Sight may provide any such anonymised documents to Post Office Limited so that it can provide input and assistance to the Inquiry.

Post Office Limited may provide Second Sight with its own comments on any or all concerns, and on Horizon generally.

In order to carry out the Inquiry, Second Sight will be entitled to request information related to a concern from Post Office Limited, and if Post Office Limited holds that information, Post Office Limited will provide it to Second Sight.

Post Office Limited will provide Second Sight with such hardware, software and technical information and administrative support as Second Sight may reasonably require to carry out the Inquiry.

Second Sight will determine the process it will follow for the Inquiry using its judgment, after consultation with Post Office Limited and JFSA.

The Output of the Inquiry

Second Sight will consult with JFSA, Post Office Limited, and/or any other party as it considers necessary before producing any report. No party may introduce any wholly

new issue or concern at this stage, and the parties will each keep the consultations with Second Sight and their contents confidential.

Second Sight will consider and take into account any comments received from JFSA, Post Office Limited and/or any other consulted party, and may conduct further investigations if necessary in light of the comments (having regard to the agreed total budget). Second Sight will then produce the report by a date agreed between Post Office Limited and Second Sight.

The report will report on the remit and if necessary will contain recommendations and/or alternative recommendations to Post Office Limited relating to the issues and concerns investigated during the Inquiry. The report and recommendations are to be the expert and reasoned opinion of Second Sight in the light of the evidence seen during the Inquiry.

The report may be published. Until it is published, JFSA (and its advisers), Post Office Limited, and any other party consulted by Second Sight will keep the report and evidence confidential.

Second Sight will prepare the report so that so far as is reasonably possible, it may be published without redaction of personal data and/or information that is confidential or commercially sensitive for Post Office Limited or any Horizon user, bearing in mind the primary need to ensure that the report is reasoned and evidence based.

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Post Office statement on findings of interim report into Horizon computer system

The Post Office today issued the following statement in response to the publication of an interim report into alleged problems with the Horizon computer system, which is used to record transactions in its branch network

The Post Office today issued the following statement in response to the publication of an interim report into alleged problems with the Horizon computer system, which is used to record transactions in its branch network

The report is being published by an external firm, Second Sight, who were commissioned by the Post Office last year. It confirms that no system wide problems have been found in relation to the Horizon software, but suggests that the Post Office should examine its support and training processes for sub-postmasters

Post Office chief executive Paula Vennells said:

"We commissioned this independent review to address concerns that have been raised about the Horizon system and we welcome the broad thrust of the interim findings.

"The Post Office is committed to supporting its people and improving the way we do so. The interim review makes clear that the Horizon computer system and its supporting processes function effectively across our network. As the review notes, it is used by around 68,000 people in more than 11,500 branches, successfully processing more than six million transactions every day. The review underlines our cause for confidence in the overall system.

"It does however raise questions about the training and support we have offered to some sub-postmasters and we are determined to address these issues.

"The people who work in the post office network in communities across the country are the lifeblood of our business and we take our responsibilities to them very seriously.

"We therefore regret very much if any sub-postmaster feels that our standards of support or training have not met their needs, and we are grateful to James Arbuthnot MP and the Justice for Sub-postmasters Alliance (JFSA) for raising these issues with us.

"In many of these cases I am confident that steps have already been taken which have improved support and training but we are always open to feedback and insights from sub-postmasters. So we will make further improvements in this area and take better account of individual requirements and circumstances going forward."

The Post Office is proposing to respond to the Second Sight report with three new initiatives aimed at addressing the issues raised, improving future processes and examining potential structural changes to support sub-postmasters.

1 The creation of a working party to work collaboratively to complete the review of cases started by Second Sight last year. This would examine the themes identified by Second Sight and consider all cases brought forward by the JFSA and MPs, together with any new themes which emerge from these cases. The JFSA have been invited to join this working party.

2 A review chaired by an independent figure to determine how an independent safety net might be introduced to adjudicate in disputed cases in the future. Again the JFSA and other stakeholders will be invited to take part in this process.

3 A new Branch User Forum to provide a way for sub-postmasters and others to raise issues and insights around business processes, training and support, directly feeding into the organisation's thinking at the highest level. A key task for this forum will be to review support processes and training to ensure they meet the standards expected of the Post Office.

Ms Vennells added "We have an obligation to protect public money, including investigating suspected wrongdoing. However, we hope the action we are already taking and these additional proposals to work collaboratively with the JFSA and sub-postmasters demonstrate our commitment to improving the way we support all those who work in our unrivalled branch network."

[View Horizon Interim report](#)

Contact - Ruth Barker

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Hansard: House of Commons Debate – 'Post Office Horizon System' 9 July 2013

Post Office - Horizon System

1.38 pm

The Parliamentary Under-Secretary of State for Business, Innovation and Skills (Jo Swinson): Yesterday evening, an interim report into alleged problems with the Post Office's Horizon computer system was published. The report was commissioned by Post Office Ltd from external forensic accountants, Second Sight. The Horizon system records all transactions conducted at every post office counter across the country. The Government welcome the publication of the interim report and the Post Office's statement in response. Although Post Office Ltd is 100% owned by the Government, the company operates at arm's length as an independent commercial business. The Government do not play any role in operational matters. It is important to note that the issues in the report have no impact on Royal Mail, which is an entirely separate business. It is also important to be clear that, contrary to misleading media reports, the review explicitly confirms that "we have so far found no evidence of system-wide problems with the Horizon software".

The very small number of sub-postmasters who have experienced issues with the Horizon system are a minute proportion of the tens of thousands of people who have been successfully using the system across the network of 11,500 branches on a daily basis since 1995. Out of 68,000 users, only 47 cases have been put forward to the review. I want to emphasise that the interim report makes no comment on the safety or otherwise of any conviction of a sub-postmaster for fraud, theft or false accounting. Equally, even if it had, the Government cannot intervene in the legal process to review or appeal past convictions. These matters can properly be dealt with only by the relevant judicial authorities. The interim report published yesterday analysed four cases. It found that there was scope for the Post Office to improve aspects of its support and training for sub-postmasters, and it has already taken steps to do so. The Post Office has further proposed a number of measures to build on some of the points made in the Second Sight report on support and training for sub-postmasters. I welcome those initiatives as, I understand, does my right hon. Friend the Member for North East Hampshire (Mr Arbuthnot), who has played a key supporting role in identifying cases for examination in the review.

The Post Office statement issued yesterday welcomed the broad thrust of the report's findings and outlined three initiatives to deal with the issues raised. First, it will set up a working party to complete the review of cases started by Second Sight, and will consider all 47 cases brought forward by the Justice for Subpostmasters Alliance—the JFSA—and MPs. The JFSA has been invited to join the working party. Secondly, an independent figure will chair a review to determine how best to adjudicate disputed cases in future. The JFSA and other stakeholders will also be invited to take part in this process. Finally, a new branch user forum will provide a channel for sub-postmasters and others to raise issues at the highest level on business processes, training and support. The company will take forward the proposals as an urgent priority. I commend this statement to the House.

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1.41 pm

Ian Murray (Edinburgh South) (Lab): I thank the Minister for the advanced copy of the statement and for coming to the House. This is a disturbing affair. At a time when sub-postmasters' income is being squeezed, the last thing they need is to lose confidence in the system they use to operate their businesses. The people in the post office network are the lifeblood of our communities and must be

supported in every way possible. A recent National Federation of SubPostmasters survey found that operating costs were rising while personal drawings were falling, and that one in four sub-postmasters take no salary from their businesses. Most sub-postmasters earn little or no income from either financial or Government services, the two areas that Ministers identify as having real growth potential for post offices. The NFSP removed its support for the Postal Services Bill on the basis of the abject failure of the Government to deliver the "front office for Government" services they promised at the previous election. That is what makes today's revelations on the Horizon system all the more worrying.

I welcome the steps taken by Post Office Ltd to investigate the concerns raised by the Justice for Subpostmasters Alliance and the right hon. Member for North East Hampshire (Mr Arbuthnot). Its website has a case-by-case analysis of sub-postmasters who did nothing wrong, but for whom alleged defects in the system had resulted in problems with cash reconciliation and processing payments. Press reports this morning say that the Post Office has admitted to software defects in the Horizon system, but the Post Office press release would have us think that this is a mere training problem.

Second Sight, the independent company employed by the Post Office to investigate these issues, said that while there was no fundamental problem with the Horizon system, there were bugs in the system that resulted in it identifying defects resulting in a shortfall of up to £9000 at 76 branches. The Post Office has recognised, however, that the report raises questions about the training and support being offered to some sub-postmasters. This raises wider questions on the current network transformation programme. Training concerns have been consistently raised by Opposition Members, the Select Committee on Business, Innovation and Skills and Consumer Futures, but the move to a Locals model could result in fewer fully-trained staff in our post offices.

If post office services are merely being administered from the front counter of a newsagent or shop, can we guarantee that the servers will be fully trained to ensure that the issues with the Horizon system do not arise in the future? The Minister did not address that question in her statement, and the National Federation of SubPostmasters has raised this issue time and again. It responded today by welcoming the Post Office statement, but also said "We are encouraged to see that Post Office Ltd (POL) concedes that there is scope for improvement in its training and support programmes—issues which the NFSP has raised repeatedly with POL."

This is all at a time when Crown Post Office staff are in industrial action, the transformation programme is struggling to be delivered, sub-postmasters' incomes are dropping, there is a dispute with Royal Mail on the segregation of mail payments, the future of the inter-

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business agreement is unclear due to Royal Mail privatisation, and Post Office senior management have awarded themselves bonuses of more than £15 million.

What processes will be put in place to compensate sub-postmasters and former sub-postmasters who have been disadvantaged, fined, lost their businesses, homes or even jailed, as a result of the problems with the Horizon system? The Minister said that the interim report makes no comment about any convictions, criminal or otherwise, but will those serious issues be dealt with? When did the Government know about this investigation and the problems with Horizon? How will she ensure that all staff are adequately trained in the transfer to a Locals model? Can she confirm or deny recent reports that there are ongoing talks to change the voluntary Locals network model to a compulsory model, due to the slow take-up of the transformation?

Jo Swinson: I thank the hon. Gentleman for his wide-ranging remarks and questions. He is right to say that it is important for people to have confidence in the post office network. In terms of tone, I understand that the remit of Opposition is to ask questions and to be challenging, but it is important that we do not talk the Post Office down. Members on both sides of the House recognise the vital role that post offices play in our communities, that they are doing an excellent job and that there can be a bright future for the Post Office. This Government have stopped the decline in the numbers in the post office network under the previous Government. The hon. Gentleman will be aware that the Post Office has won 10 out of 10 Government contracts recently. We want more income for Post Office Ltd to come through Government services. It has a good record of winning contracts.

The hon. Gentleman mentioned the bugs in the system that have been reported in the media. It is important for the House to have clarity on this, because there are two separate issues. The Post Office itself identified issues on two occasions: through a routine systems check and as a result of a query from a sub-postmaster. That led to a small number of transactions being queried across 76 branches. Post Office was proactive in identifying and rectifying those problems so that no sub-postmaster was out of pocket. That is a separate matter from the issues considered in the report, and which were raised by the JFSA and Second Sight. No system-wide software issues were found. There were issues relating to the interface for dealing with multiple computer systems. The training on offer, and the helpline that sub-postmasters can call if they have a problem, were identified as areas for improvement.

The hon. Gentleman asked specific questions on compensation. There is no new evidence of further problems. Where the Post Office has identified defects, sub-postmasters have already received compensation to right underpayment. On convictions, it is up to individuals to go through the usual judicial processes if they are concerned about the safety of a conviction, and that can be done through the Court of Appeal. Clearly, if any evidence were to come to light that had an impact on the safety of convictions—I stress that that has not happened as a result of this interim report—Post Office Ltd would have a duty to look further at those issues as a prosecuting authority to ensure that convictions remain safe.

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The report was commissioned by Post Office Ltd, but the Government were aware of it and there have been meetings with MPs in the House at various points in the past couple of years. On the transfer to the Locals model, I confirm that proper training will be in place. Customer satisfaction in the branches that have already gone through network transformation is significantly higher, and the experience that customers have is important. We are looking to ensure that network transformation continues and is successful, but any discussion on its future will be done in conjunction with the National Federation of SubPostmasters to ensure that we move ahead with a plan in which everybody has confidence.

Mr James Arbuthnot (North East Hampshire) (Con): I thank my hon. Friend for making this valuable statement to the House. Does she accept that the Post Office, which has acted highly commendably in commissioning this independent review, has a conflict of interest—or, rather, a conflict of duty—in both looking after its sub-postmasters and protecting public money, and that the review has shown that it has fallen too far on the asset recovery side of that conflict? Does she agree that it is essential that the work that needs to be done is not only independent, but seen to be independent of the Post Office? Does she also agree that some sub-postmasters would never have been prosecuted, sued or disciplined had the new procedures now in place or proposed been in effect earlier, and that we must look after them and try to provide them with redress, perhaps through the Criminal Cases Review Commission?

Jo Swinson: I sincerely thank my right hon. Friend not only for his question and comments, but for his work acting as a collecting point for some of the concerns. Importantly, it ensured that cases could be looked at anonymously and confidentially, meaning that nobody had to fear bringing them forward. That has played an essential role in this process. Post Office Ltd is the guardian of large amounts of public money, and it is important that it is properly looked after, but that does not mean it cannot also support sub-postmasters in ensuring that their systems work properly and ensure that there is reconciliation and that things tally up. In fact, I would argue that those are complementary duties, because ensuring that sub-postmasters are well supported helps the Post Office with its role in looking after public money.

It is important that any further work is not only independent, but seen to be independent, and clearly the role of Second Sight in that is important, as is the role of the JFSA. I would not go as far as my right hon. Friend, however; there is no evidence to suggest that any convictions would have been different had these processes and training systems been in place, particularly given that in most of the prosecutions dealt with in the report—not all 47 cases in the report resulted in a prosecution—the sub-postmaster pleaded guilty in the first place. It is difficult to second guess when somebody has entered a guilty plea.

Mike Wood (Battley and Spen) (Lab): I thank the Minister for her statement. She stresses the need for independence in the continuing process of looking at the outstanding queries and issues, and no doubt she is

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mindful that when the Post Office talks about Horizon, it does not just mean the software in the computer system; it means the wider issues, including the interface between that system and other systems; training staff how to use it, and so on. Given that she has made a commitment on the need for independence, will she assure the House that if we are to move to a working party to continue the process, Second Sight, which has done such good work up to now, will be part of it?

Jo Swinson: I shall happily give the hon. Gentleman that assurance. The continued input of Second Sight is incredibly important, given its familiarity with the case so far and the fact that it enjoys the confidence of many of those involved. It is also important to recognise, however, that to date this system has handled more than 45 billion transactions and that there have been issues with only a tiny, tiny number of them. As the report itself found, the vast majority of sub-postmasters in branches were at least reasonably happy with the Horizon system. I suspect that Members would say that, where IT systems are concerned, "reasonably happy" is probably as good as we are going to get. Generally, it is working well, but we need to ensure that the further work on cases where there are outstanding queries is independent.

Mr Jonathan Djanogly (Huntingdon) (Con): Clearly, it has now been ascertained that the Horizon system has problems, even if, as the Minister says, they are not systemic. Does she not feel that that is unacceptable, however, given the delays from Post Office Ltd in working out what went wrong? This matter has meandered on for years, resulting in serious reputational damage risks to sub-postmasters. Will she give us her views on whether that is acceptable?

Jo Swinson: It is to the Post Office's credit that it has commissioned this independent review, which has been transparent and accountable, as my right hon. Friend the Member for North East Hampshire (Mr Arbuthnot) also said. It is easy for organisations to say there is not a problem and to try to sweep these things under the carpet, but Post Office Ltd decided to be open about it and to ensure that the report was published. In fact, its newsletter to all

branches contained an article encouraging anyone who had difficulties or queries they wanted to raise to ensure they were put into the Second Sight review.

The Post Office has taken significant steps to ensure that there is transparency and accountability and that people's concerns are taken forward. Clearly, sometimes these issues take time, and of course there are lessons to be learned. Improvements will be made to ensure that when queries are raised, they can be investigated more thoroughly, but again I highlight the context: we are dealing with a system that processes billions of transactions, so it is very complicated and it cannot be expected that nothing will ever go wrong; what is important is how the organisation responds when things do go wrong.

Mr Kevan Jones (North Durham) (Lab): Being a Minister allows the hon. Lady not only to ask questions but to right wrongs. To dismiss cases such as that affecting a constituent of mine, Mr Tom Brown, as minuscule does not change the fact that he has lost his livelihood, his wife has died, his name has been dragged through the local community and he is still awaiting

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an outcome from the Post Office. He was arrested by the police, but they did not take the case forward; the Post Office did. His good name is now being questioned, he has had to sell his house and is still waiting for the Post Office to produce the evidence. I am sorry, but the Minister's statement has done none of the things she could have done to put right some of these wrongs.

Jo Swinson: I appreciate the situation that the hon. Gentleman's constituent finds himself in—it is important that he is speaking up for him—and I understand that this has had a massive impact on those involved. When I referred to "minuscule", I meant the number of transactions queried out of the overall number of 45 billion. I do not know the details of the individual case, so I hope he will appreciate that it is therefore difficult for me to comment. What is important is that we have an independent procedure to get the answers that people such as his constituent are looking for, and everyone involved must have confidence in that procedure. I know that there have been meetings of MPs and that the JFSA is involved; getting those answers is important, but it is also important to stress what the report shows, rather than to suggest that it contains things that it does not.

Mr Robin Walker (Worcester) (Con): I welcome the Minister's statement, particularly the commitment from the Post Office to improve aspects of its support and training for sub-postmasters. I recently visited St John's post office in Worcester, which is an enthusiastic early adopter of the network transformation programme. Will she join me in celebrating the fact that the Government are investing in the post office network, rather than running a closure programme, as the last Government did?

Jo Swinson: I very much welcome my hon. Friend's comments. He is quite right that the Government are investing £1.34 billion in the post office network, and I know from speaking to Members on both sides of the House that where these new models are open and working, they have had a really positive reaction from consumers. The Post Office has a bright future, but part of that is about ensuring that where issues arise, they are properly investigated. That is what this independent process has been doing, and that is why we are discussing it today.

Mr Mike Weir (Angus) (SNP): The number of sub-postmasters affected might be small, but none the less it has led to terrible consequences for many of them. One reason many people pleaded guilty, paid back money or had money taken off them by the Post Office at source might have been the latter's insistence that there was absolutely nothing wrong with the system. It has now been proved that there is doubt about at least part of the system, so is it

not imperative that all these cases be dealt with speedily and that justice be done for these sub-postmasters?

Jo Swinson: The hon. Gentleman is right that it is imperative that these cases be looked at speedily, although I think he would also agree that that needs to be done comprehensively, and clearly when forensic accountancy work is going on, things can take time. We need to be clear about what the report says about the Horizon

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system. It did not find evidence of systemic failures; that is not to say there has never been a bug in the system, but I defy anyone to find an IT system that has never had a bug. What is important is that when bugs are found, they are dealt with and the problems are rectified. What has not been found, however, is any systemic problem leading to the issues faced by sub-postmasters, although there have been issues with the support and training provided alongside Horizon.

Jonathan Lord (Woking) (Con): Like many colleagues, I have a constituent, Mrs Seema Misra, whose life and family life is in ruins after suffering reputational damage and receiving a custodial sentence. I see from the Minister's statement that an independent figure will chair a review to determine how best to adjudicate disputed cases, but will she assure me that the working party set up to complete the review of current cases will also be chaired by an independent figure? That is important.

Jo Swinson: Yes, I am happy to give my hon. Friend an assurance that the working party will be independent. As I have already confirmed to the House, the continuing involvement of Second Sight, which is independent of the process, is crucial as part of that working group.

Mr Russell Brown (Dumfries and Galloway) (Lab): The Minister has said that the network is working well. Will she share with the House the numbers of sub-post offices that are temporarily closed or have had to move to an alternative, temporary service delivery system?

Jo Swinson: I will certainly ensure that that information is sent to the hon. Gentleman in writing. As he, and I hope the House, will appreciate, these numbers change regularly by their very nature. To ensure accuracy, I will write to him and place a copy in the Library. What is important is that we have a commitment to maintain the network of post offices at 11,800. We are ensuring that we invest in the network, rather than embarking on closure programmes, which, as I know from my constituency and elsewhere, unfortunately had a negative impact on the post office network up and down the country.

Andrew Bridgen (North West Leicestershire) (Con): Having been involved in this issue for some time and having initially been told by Post Office representatives that the Horizon software system was perfect and could not be infiltrated, I am pleased that the Post Office is co-operating with the independent investigation, whose interim report indicates that the system is clearly not perfect. I urge my hon. Friend to ensure that Second Sight continues with its investigations. Does she accept that if the system was perfect, the modifications would not be needed and many—or some—of the historic convictions may well be unsafe?

Jo Swinson: I certainly agree with my hon. Friend that no system is perfect; perhaps it is a bit of a hostage to fortune for anyone to proclaim a system as perfect. I would not agree with the second part of his question—that that therefore means that those convictions are obviously unsafe. The evidence is not there in today's report, but if evidence emerges to suggest that, there are legal channels that can be followed to ensure that those issues are taken up.

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Huw Irranca-Davies (Ogmore) (Lab): It seems to me that two groups of sub-postmasters fall outside the remit of today's statement. The 47 past cases brought forward by the Justice for Subpostmasters Alliance will be taken forward by the independent working party, but what about somebody—I have one such case in my patch—who for very good reasons does not feature in those 47 cases? Can that be looked at again? Secondly, what about live cases? The statement refers to "disputed cases in future", but I have two live cases in my constituency that do not fall within anything that has been described today.

Jo Swinson: Clearly the procedures that the Post Office is putting in place to improve its training and support will, I hope, assist those cases that are live at the moment. On the hon. Gentleman's first point, I can certainly give an assurance that if there are other cases that need to come forward, we would not want to deny those people the opportunity for that to happen.

David Mowat (Warrington South) (Con): For the purposes of clarity, can the Minister confirm that all the issues we are talking about today are business, process and training-related, and not software-related? Is that what we are saying?

Jo Swinson: Yes. The report mentions a couple of bugs in the Horizon system, which the Post Office proactively found and rectified, but basically what it has found to be lacking in Horizon is not the software, but the support and other issues around the software.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): The Minister has given some full answers to the questions posed, but she was unable to give a direct answer to one of the questions put by my hon. Friend the Member for Edinburgh South (Ian Murray) from the Front Bench. Let me give her another opportunity to confirm whether the Government and Post Office Ltd are considering changing the Locals programme from a voluntary to a compulsory basis. A simple yes or no answer would be adequate.

Jo Swinson: I am always keen to be concise. I think I did answer the question earlier. I pointed out that the transformation programme is an important part of the Post Office's future. We are making sure that we look at how it will be delivered with the new strategy for the Post Office that will be published, and we are working closely with all the stakeholders to ensure we can do that. What is important is that whatever the future system looks like, there will be a choice for sub-postmasters, rather than forcing them down a particular route.

Mr Philip Hollobone (Kettering) (Con): Being a sub-postmaster is a very worthy profession, at the heart of many local communities and helping highly vulnerable people. With respect, I think the Minister dismisses too lightly the devastating impact that the Horizon system has had on a small number of people. The very least that Post Office Ltd should be doing is setting up a legal fund to review each case, because many will have pleaded guilty to false accounting, given the situation with the system and the legal advice they received at the time.

Jo Swinson: I absolutely recognise that the impact on individuals has been intensive and considerable, and I think I have made that point to other Members who have raised this issue. Constituency MPs are absolutely

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representing their constituents in taking forward these proposals, but I think there is a distinction to be drawn before assuming that convictions are therefore unsafe. It is important that we draw that distinction and that we are careful about what we say, particularly when it

comes to legal proceedings that have taken place outside this House—and rightly independently of this House—and where people have entered a particular plea.

If individuals are concerned about the quality of the legal advice they received at the time, there are routes for them to challenge that, such as the Legal Services Commission. If evidence comes to light that materially affects the conviction, that would also need to be looked at by Post Office Ltd as the prosecuting authority, as I have said. However, that is not where we are yet. We will of course remain open minded about that as the review process continues. So far, only four of the 47 cases have been looked at in detail. Therefore, we await to see what more will come out of the review.

David Simpson (Upper Bann) (DUP): I thank the Minister for her statement. She will have heard a number of Members putting information before the House about the lives that have been ruined. Injustice has been done, and that needs to be corrected. Will she tell us the exact details of the training that Post Office Ltd intends to carry out?

Jo Swinson: Training is carried out as a matter of course when new postmasters join the network. That can vary between a little over two weeks to three weeks. The Post Office is now ensuring that it visits new sub-postmasters after one month, and again after three months for the new local and main operating models, to deal with any teething issues or further questions that have arisen from their working the process for a few weeks.

Improvements to the helpline are also important, so that it does what it says on the tin and is actually helpful to people who call it. One thing that has improved the helpline is making it available for extended hours. As other Members have mentioned, sub-postmasters work very hard for long hours, so assistance needs to be available to them when they happen to be doing their reconciliation at the end of the day. That is not likely to be within office hours, so the service needs to be available after branches have closed. Those are just some of the improvements that the Post Office has been making.

Mr Peter Bone (Wellingborough) (Con): I thank the Minister for coming to the House and making today's statement. She is an excellent Minister, but on this occasion she has got it wrong. Indeed, I think she got the mood of the House wrong. The House is concerned about a very small number of people who have had their lives ruined. It is no good saying, "Oh, they can appeal," or that they can do this or that. We need proactive action from the Government. I suggest that she talk to the Attorney-General to see whether he can look into those cases and review them.

Jo Swinson: I thank my hon. Friend for that question and for his kind words. I accept that this is a serious issue for the individuals involved, and it is absolutely natural that their constituency MPs are putting their cases. However, we have to be careful about going from the understandable sympathy for individuals in a difficult position to an assumption that all these issues are

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therefore unsafe and the result of problems in a way that is not borne out by the evidence in the report. That is why it is important to have a continuing independent review process in which people can have confidence, but it is also important to go by the evidence found in the report.

John Woodcock (Barrow and Furness) (Lab/Co-op): For how long are my constituent and many others going to have this appalling cloud hanging over them? Has the Minister put a time limit on the next stage of the review?

Jo Swinson: The review is independent of the Government and of the Post Office, so it would not be appropriate for me or for the Post Office to put an arbitrary time limit on it. That said, I absolutely understand the hon. Gentleman's point that there is a need for speed and for the prompt resolution of these issues, but that has to be balanced against ensuring that they are looked at in a comprehensive way. The independent working group, which will include representation from the Justice for Subpostmasters Alliance, will help to ensure that that happens swiftly and without compromising the details that need to be gone into.

Jim Shannon (Strangford) (DUP) rose—

Mr Speaker: The hon. Member for Strangford (Jim Shannon) has bobbed up, as is his common practice, at the last minute. I should not want him to feel excluded.

Jim Shannon: I have bobbed up at the right time.

I thank the Minister for her statement. The Horizon system has been blamed by some sub-postmasters who have been accused of false accounting. Does the Minister agree that red tape makes it difficult to run rural sub-post offices, especially those in isolated locations? What steps is she taking to restore confidence in the system, especially in relation to rural post offices?

Jo Swinson: The hon. Gentleman is quite right to raise the issue of rural sub-postmasters. The communications systems depend on communications technology, which can be more of an issue in rural areas. Many post offices have a main phone line and also a back-up system, perhaps using a mobile telephone. Rural areas often have difficulties with broadband connectivity, which is why the Government are moving ahead with plans to ensure that rural broadband is much better spread out. The support for rural post offices is certainly significant, and we recognise that there are many branches that need subsidy from the Government to continue. That is why the Government are injecting £1.34 billion into the post office network. We also recognise that there will be a continuing need to ensure that rural post offices are supported in providing their excellent services. They might be the last remaining shop in a village, or the only post office serving a large, far-flung area.

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Points of Order

2.11 pm

Huw Irranca-Davies (Ogmore) (Lab): On a point of order, Mr Speaker. I welcome the Minister's statement, and I think I understood—it might have been my hearing—that she made an offer to look beyond the 47 cases raised by the Justice for Subpostmasters Alliance. I was not clear, however, to whom any further cases should be referred. Perhaps, while the Minister is still in the Chamber, you can guide us on how we might get that clarification.

Mr Speaker: The failure of the hon. Gentleman to hear what was said does not, in itself, constitute a point of order. However, as the Minister is still here and looks happy to come back to the Dispatch Box to clarify the matter, he might be released from his ignorance before very long.

Jo Swinson: I am sure that the hon. Member for Ogmore (Huw Irranca-Davies) would have had the ingenuity to ensure that any such cases received attention in any event, but for the benefit of the House. I should point out that one avenue for highlighting any further cases would be to bring them to the attention of the Justice for Subpostmasters Alliance, which will be part of the independent working group. I hesitate to suggest, although I am probably safe in doing so, that my right hon. Friend the Member for North East Hampshire (Mr Arbutnot)

would also be happy to continue in his role as a recipient for any such cases. He seems to be nodding. So those are two options for the hon. Member for Ogmoores.

Mr Speaker: I trust that the hon. Gentleman is now satisfied. He does not have to suggest that his ear is somehow defective. I feel sure that it is not. He might simply not have been paying full attention; I do not know.

Mr Christopher Chope (Christchurch) (Con) rose—

Mr Speaker: A further point of order. It is point of order day!

Mr Chope: On a point of order, Mr Speaker. Is it within your power to require the Government to provide time for the proper scrutiny of Government measures before they are subject to a vote? Command paper 8671, to which the Home Secretary referred in her statement, comprises 155 pages of pretty impenetrable prose, with hardly any explanation. The command paper has considerable policy implications, but there are many ifs and buts among the contents. I cannot see how the House can reasonably be expected to reach a substantive conclusion on whether signing up to the document is in the national interest unless we are given a lot more time for its scrutiny, not only by the House but by the Select Committees, which are appointed specifically to do the job of scrutiny.

Mr Speaker: The short answer is that I do not have the power to which the hon. Gentleman refers. I much appreciate his belief that the Chair ought to be invested with greater powers, and I do not for one moment dissent from that proposition. The reality is that he and

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others will have to use their best endeavours in the coming days—it is literally a matter of days—to ensure that they are furnished with adequate material, and understanding thereof, to enable them to participate to their satisfaction in the debate that the Government have apparently now scheduled. I can operate only within my powers, but I know that the hon. Gentleman is a persistent, indefatigable and skilful Member, and I am sure that he will make the very best fist of this, not only on his own but with others.

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Source	Date	Document	Key extract(s)
Blog	August 2013	 Net_Wide_Exec_n_... August_13.docx	<p>It is not just about computer failures. It's about incompetence, mismanagement and indifference. It is a story about an organization's misguided faith in the reliability of a computer system and its total disregard for any consequences it may incur. It is a story about ordinary people finding their lives ruined through a series of flawed technical, contractual and legal decisions which caused the job to spiral from their hands and then into their lives, just as you see.</p> <p>There are many who have lost something through no fault of their own. They deserve redress. They need their voices heard, and they need their money and possessions back.</p>

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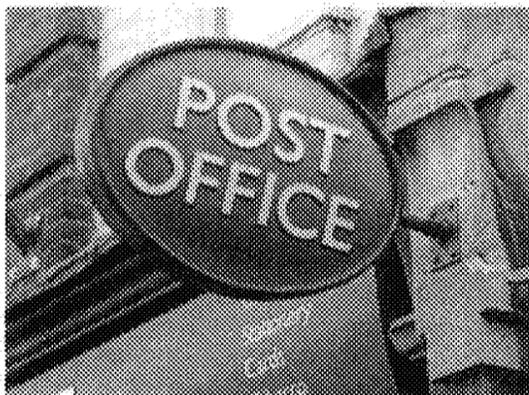


Nick Walle blog in August 13

Post Office One Night register into Heaven

UPDATE - 09 Sep 2014 - An account for info from Sun Microsystems.

ORIGINAL POST 14 August 2013 - This blog post has been prompted by the July release of an interim report by the forensic accountancy firm and legalists the Post Office Horizon computer system.



A Post Office, earlier today

I have been working on this story for a long time, and I'm finally beginning to see what it is.

It is not just about computer failure, it's about arrogance, insouciance and indifference. It is a story about an organisation's misplaced faith in the infallibility of a computer system and its total disregard for any consequences that may ensue. It is a story about ordinary people having their lives ruined through a series of punitive technical, contractual and legal constraints which stacked the odds against them, and then ran them through, good and proper.

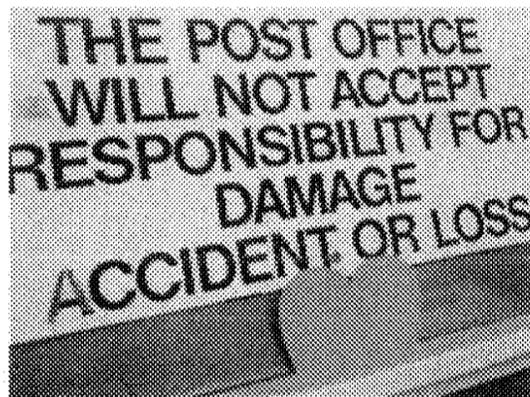
My involvement started back in November 2010 when I received a call from a man whose program will have been used to generate the tapes of computer evidence generated by Horizon. It led to an investigation broadcast on 7 Feb 2011 on my BBC2 Saturday show and on BBC1's South's Inside Out programme.

Following the broadcast of the investigation and a subsequent article published in Private Eye magazine, the Post Office announced it would be appointing and Oight, a forensic accountancy firm, to look at Horizon and how well it's working.

The MP for North East Hampshire, James Arbuthnot, who featured in our initial Lancast, was one of the prime movers in all this. He effectively issued on the Post Office, possibly pointing out the increasing level of media interest in the story, and they agreed to do something.

Paul Light's appointment was announced in June last year. Matt Proctor, the BBC's home office correspondent, had been gathering material on Horizon, and was able to react to this by immediately using all the material he had already recorded with Subpostmasters who had found their fees raised despite their best endeavours.

In the meantime I stayed in touch with the James F. O. Subpostmasters Alliance, and continued to receive correspondence from Subpostmaster who submitted several on-line bug posts on the subject.



Hor Well! Hor Yes! Hor

The Paul Light article reworded into the Horizon accounting system is a clear and frankly superb document. And it is damned.

On the fundamental issue of whether software glitches have caused corruption within Horizon, the report is unequivocal.

"We are aware of 2 incidents where defects or 'bugs' in the Horizon software gave rise to 76 branches being affected by incorrect balances or transactions which took some time to identify and correct."

Disparaging and dishonest.

So, as a relatively short investigation Paul Light has uncovered two instances of software glitches affecting computer systems in multiple Post Office branches.

This contradicts the statement the Post Office gave to *the Guardian* less than a year ago, which claimed:

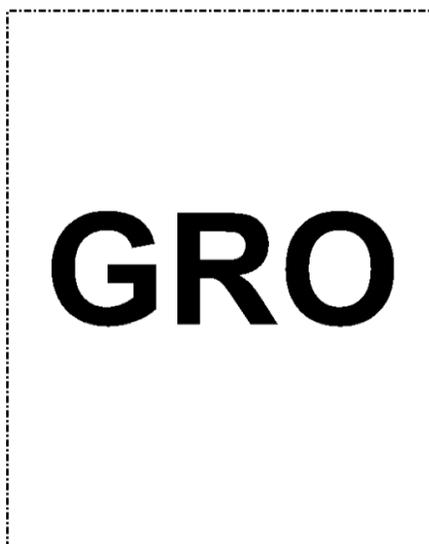
"The Horizon computer system is absolutely accurate and reliable"

When we first broadcast the complaints against the Post Office we were in a tricky place, legally. We had no proof there was anything wrong with Horizon, or that there ever had been. All we had was the word of a series of whistleblowers, some of whom were not provided credentials, some of whom were computer experts.

There was a public interest in broadcasting the information we had. But it had to be balanced against the fact that we didn't

have a single atom of hard evidence - no whistleblowers, no smoking gun, no paper trail, nothing. The Post Office, for its part, could point to a DPP's success rate when it came to making prosecutions, doing that every time they took a case to court. The jury had concluded beyond reasonable doubt that the Subject-matters in the dock were criminal. The Post Office refused all interview requests for our 30 page Q&A programme.

When trying to take wider criticism for the story in the month following its final broadcast I had a chat with Stephen Mason, a barrister specialising in the presentation of electronic evidence in court. In fact, he wrote the book on it.



Stephen Mason

Mr Mason believes the legal system is failing when it comes to computer evidence

Firstly because prosecutors and defence lawyers don't understand what they're being presented with, and therefore don't know how to examine it properly, and are therefore unable to ask the right questions of the relevant experts in court.

Secondly, there is an underlying legal presumption that computer evidence is infallible, based on the assertion that 'machines do not lie'. The warning is that, because it is a purely self-contained, closed system, machines do not deliberately misrepresent, unless that is to do so.

But legally this has come to mean that 'machines do not make mistakes' so if a mechanical device has done the same thing hundreds or thousands of times in exactly the same way, it is not a defence to say it must have started doing something differently. The idea was conceived well before anyone started programming computer software, and was meant to represent basic mechanical devices (say, a cash register), rather than the modernised electronic systems we depend on nowadays.

Thirdly, there is a widespread public perception that electronic evidence is infallible, hence the readiness of juries to convict on computer records alone.

I asked Mr Mason directly if it was a real variable that the Horizon system was tracking up random glitches, the crucial allegation

of our Inside Out piece. "Yes of course," he replied.

Turns out, from chatting to people who work in IT, these sort of "legacy" legacy systems can be extremely problematic. Over a period of time, they degrade. The ones they see the most problems can be expected, especially when you start bolting new features and interfaces onto it. But seeing someone who works in this area (or more pedantically worked on Horizon, itself) who would be prepared to break down seemed impossible.

I asked the journalist I worked with at Inside Out about all the IT crash-up stories they'd run over the years - where did they get their whistleblowers from? He told me none of the information they received had ever come from anyone inside an IT company. It mainly leaked out through unions and politicians.

I suppose if you work in IT and you see a problem with a system you go to management or change causes a headline to fix it. It would be career suicide to go public.

Interestingly, Znet Sight's report was picked up by the programmer team at about. It's well worth reading the discussion there.

I also spotted this, from Angus Marshall, a "digital forensic examination expert witness" (who I have since contacted) in a discussion forum:

"A few years back, I assisted with one case where a sub-postmaster was accused of defrauding the benefits systems by cashing vouchers and keeping the money for himself. The whole case revolved around a discrepancy between the Post Office system and the DWP system. Given that DWP's "error handling" consisted of throwing away any records that it didn't like the look of, without recording anything about them, we managed to get that "evidence" ruled unreliable and inadmissible pretty quickly.

It took about 4 hours of meetings with two of the system programmers - one DWP and one Post Office to discover that no-one had ever bothered to check that the data interchange specs actually matched on both sides - and they'd never been told to consider the evidential requirements of their systems.

Both systems were (are) run by the same company, btw."

It has become apparent to me that the Horizon story is having some the logical exonerations which govern the way non IT people (including journalists, judges, lawyers, prosecutors and Post Office executives) think about technology.

We believe the commercial IT systems which affect our daily lives are capable to the point of being incapable of material error. We have to, or we'd never get in a car.

This takes it some way by experience. Every time I go to the cashpoint, it works. Every time I buy something at the supermarket, it works. Every time I take a flight, it lands. What we're perhaps not aware of is the army of people making use the computers involved in these transactions in order, by testing just by testing, making red flags and maintaining the systems, at an optimum level.

So Horizon can go wrong or be hacked, but so can any other computer system. With Horizon, are we looking at a computer system that is much worse (ie more badly maintained) than equivalent systems being used elsewhere, or are we just being justifiably attentive to the wrong issue?

Let's assume that Horizon is significantly less stable than any other bank's accounting system. Let's assume Horizon's software glitches occur much less frequently than banking transactions (or whatever the industry standard acceptable level of risk is) everywhere.

So what happens in every other banking system?

Nobody knows.

It all happens internally.

Losses are recorded, managers are alerted, customers are compensated (where appropriate) and codes are re-entrusted/employees are re-trained to mitigate against future re-occurrences.

Reports are produced, decisions about IT contracts and/or the involvement in IT matters are made (profitability also made) and the system is switched off. The risk of Horizon II glitched affecting the business should be effectively a great deal less than the bank's shareholders.

Indeed, we know Horizon "lost" over one million used in Crown Post Offices (the big City PO's) in the 2007/8 financial year, and the figure was simply omitted against Horizon.



A non-Crown Post Office, today

With non-Crown Post Offices (ie all Sub Post Offices) it's different. Thanks to the extraordinary nature of the Superannuation contract, all the risk for any computer-generated accounting discrepancy falls on the substantial Superannuation.

Clearly, the PO would far rather pursue individual postmasters for money it's scrambling to bring back. It's worth this comment the possibility of errors within it's own system. Moreover the financial cost in the individual postmaster concerned.

The final report picks up on the PO's culture of bureaucracy, intrusiveness, and its effect on Subpostmasters who have had to try and deal with it.

eg "2nd Sight has asked POL [Post Office Ltd] to deliver... responses that would prove as easy to understand [as our own case review reports] that addressed the spirit, as well as the letter, of the Subpostmasters' complaints; and that were backed by evidence. Whilst the responses received from POL can be seen to be thorough, they are long and highly technical documents. In some cases, they present counter-assertions, based on Standard Operating Procedures and Controls, rather than tangible evidence of what actually happened."

For a complete list of the responses see:

"Many of the Subpostmasters we have dealt with remain aggrieved and dissatisfied with what they see as POL's defensive and unsympathetic response. Whereas we had expected that some form of closure would be reached between POL and the Subpostmasters (whose cases we are looking at), this has so far not been achieved."

Response to Subpostmasters

There is also some satisfaction at giving the Post Office a taste of its own medicine.

It is of course hard for POL to prove the negative (i.e. that [Horizon's] controls have not been circumvented) but it is only fair to say that POL now finds itself in the same situation that has faced all of the Subpostmasters who have submitted cases. They too, were unable to prove that the shortages or transactions that they reported to POL... were not the result of their own (or their employees') errors or criminal activity."

Response to the Subpostmasters

Investigate what's it up and give us the information we want

There's more.

"We can't help concluding that had POL investigated more of the "mysterious shortages" and problems reported to it [by its own Subpostmasters] with the thoroughness that it has investigated those reported to it by 2nd Sight, POL would have been in a much better position to resolve the matters raised, and would also have benefited from process improvements."

Response to Subpostmasters

Investigate it you'd have given a "" when your Subpostmasters raised these cases rather than just in the past times, not only would we not be here, we'd have far more tested and efficient systems

Clearly,

"When POL does investigate cases, there is often a focus on 'asset recovery solutions' without first establishing the underlying root cause of the problem. This is also an example of a

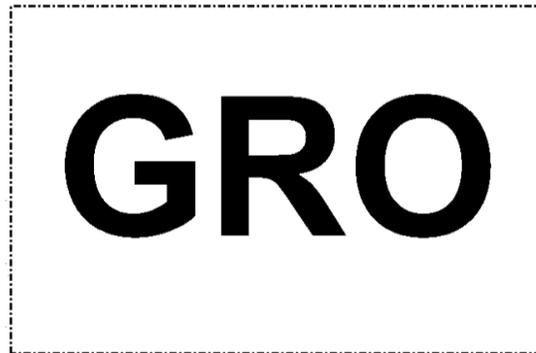
missed opportunity to be in a much better position to resolve problems and to benefit from process improvements.

From the recent tone of the report it's clear 2nd Sight have some sympathy with the Postmaster's plight.

Seema Mehta

2nd Sight are being very straightforward. On the day Bill Knight came out I received a call from the Today programme asking if I could recommend a Subpostmaster who would make a good guest. I gave them the name and mobile number of Seema Mehta, the lady in West London who was used to pay welfare program because the reasons to please qualify to hand and take advantage of would have to see the state for the severity of punishment handed out to certain subpostmasters against their written commitments. But I guess each case is different...!

Seema being misquoted from before. Seema has moved the family out of Surrey and re-started as a make up artist.



Seema (r) and Davinder Mehta

The day Seema appeared on the Today programme she got a call from 2nd Sight. They'd heard her talking about her case and wanted to review it before Bill's first report.

My

Ernie today I spoke to another Subpostmaster (let's call her Ivy) who had problems with HMCA and avoided prison by the skin of her teeth. Ivy says since the 2nd Sight report came out it's been "horrific".

She pointed immediately to prosecutions against three Subpostmasters (Susan Knight, Tom Brown and Elyn Wylle) which have been dropped since the interim report came out "due to lack of evidence".

The Justice For Subpostmasters Alliance called this "the first demonstration that we have seen that PO's are serious about resolving these issues" and seems to suggest a wind change in the PO's strategy.

My says she's still disgruntled by the way the PO treated her but thinks they now seem to be aware that "something has to

magnum, because we're not going to go away."

By Nov. 2002 had regular conversations with a man from Intel Sight. She says when Intel Sight man first met her she was told he thought she was a "murder" but for more he heard about her story. She thinks he was that fast, and that the pattern is being repeated higher and higher up the Intel chain.

Jan H. Cook, seems to me at the moment that the focus of Intel Sight, POK, and the problems is on the way Subprocessors are treated by the FBI and the terms of the Subprocessor contract, rather than Intel's ability to handle property.

I asked my Intel Sight man though there was something inherently unstable within Intel's software, by to run he does, but thinks the Intel report won't say anything with Halpin as "what's the rest ... systemic."

I really asked her if she thinks the worm had turned, and that she thinks she can get her own things together. She says she also doesn't know what to think right now, but it would be nice, at least, to get back some of the money I had."

Alan Baker

During our conversation he could not speak highly enough of Alan Baker, with him the Justice For Unsubscribers, Access, Calling him "a hero". Alan is also mainly present in the Intel Sight report. He keeps a very low media profile, but he's always happy to talk on the phone. I asked him what's going on over Intel Sight's report is in the public domain. He pointed me in a number of directions:

First of all he mentioned his unhappiness with Intel Sight's investigation being commissioned and paid for by the Post Office. He thinks the FBI's paragraph was collected in the Intel Sight report which went through more than 20 revisions before publication and was removed from release and reviewed by the Post Office and they had reviewed it that.

Alan also told me that next week the Post Office is going to announce a case review process for 50 departments, which has been developed with the BIA and Intel Sight. It will deal with existing and future grievances, and could lead to individual mediation of individual cases.

GRO

In Swinson MP, 9 July 2015

Alan also recommended we keep an eye on the government in all this. The day after the 2nd Sight interim report was released the Minister for Postal Affairs, Jo Swinson, gives a statement to the Commons. "It's a very watchable 45 minutes" says Alan. I've not watched it. It is. It gets particularly good at 17m45s when MPs weigh in on behalf of their Subpostmaster constituents, demanding better answers from the minister.

Alan is pretty sure the government is now at least aware of the scale of the problem whatever 2nd Sight conclude that to be and he wants a swift resolution, because it is trying to sell bits of POL off and can't have this hanging over it. To that end, the government wants another interim update in October.

Finally, Alan mentioned that POL are advertising for a new computer system. "To replace Horizon?" I asked. "Well it doesn't explicitly say that," he replied "but I'll send you the full advert and you can see for yourself. It's certainly a big contract."

Conclusion

To me, the 2nd Sight report represents one thing. Movement. There are an awful lot of people who have suffered, some considerably, as a result of being put in an impossible position. And it does seem as if few problems with Horizon, the Post Office's attitude and the re-loading of the Subpostmaster contract is finally being taken seriously at the highest levels.

On a wider scale, the story has also reinforced to me the importance of journalism. I have seen, first hand, how the law can be unjust. The people who have been crushed in this case are hard-working, tax-paying and trusting - the sort of people who usually go to authority when things go wrong.

When they found themselves being prosecuted for 'crimes' they often alerted the authorities to it the first place, they believed they would be rewarded.

It is only with extreme reluctance, after they had lost their homes and jobs and been convicted as criminals, they realised they had to speak out. There are not very, media savvy people we are talking about. They have no support networks or effective unions. They would naturally trust a police officer, a judge or a company director over a journalist every day of the week.

As a result that trust in society has been shattered. Now they know the police system, company protectors and supposedly benign employers can be heartless and wrong.

That's not to say this isn't all very curious, if the Horizon computer system is degrading into unreliability, it is doing so very slowly. As the 2nd Sight report states:

"The Horizon system involves approximately 68,000 users and processes over 6 million transactions every day. The entire population of over 11,800 branches was notified about the proposed investigation by 2nd Sight and this resulted in 14 additional cases being accepted for investigation. Whilst in no way minimizing [sic] the potential importance of the cases under review, this level of response suggests that the vast majority of Subpostmasters and branches are at least reasonably happy with the Horizon system."

There is, also, of course, the possibility that some of the people I have mentioned spoken to and dealt with were knowingly defrauding the Post Office for personal gain. I haven't read the court documents or seen the evidence in every single case.

What is the danger that many (perhaps I should say people) have been suspended, sacked or convicted purely on computer evidence, by prosecutors working within a justice system inclined to believe in the infallibility of computers. Without doubt a large number of sub-post-offices are isolated, poorly trained and fed into despite unfair contracts by a company which has a Dickensian "business necessary first" approach to industrial relations.

The story will go on for years. There are many who have had everything thrown at them. They deserve redress. They need their conditions improved, and they need their money and reputations back. We are a long, long way from that, but perhaps the first (sic) investigation, the interim report and the way in which a few have behaved will offer a glimmer of hope.

1. I'm one of the post-employees caught up in this and no-one can guess what the feelings and stress you have to live with especially when members of the public say things like there's no smoke without fire. Also although I have found work it is less paid and I'm only on a temporary contract and I can't bear my name. This was not what I saw for myself when I paid out every penny I saved to buy a post office which was going to be my job until I retired.

Andy Collins

Regrets

GRO

Courtesy: [redacted] January 2013 at 08:07

Hello everyone, My name is Courtney Brewster, a citizen of USA, am 42 years of age . I want to use this platform to inform you all about the goodness of the fact for finally finding me a really and genuine loan lender named Mr Mosun Diego, the responsible director of Diego Loan Company after been scammed by other fake lenders . I was hopeless and didn't know who to trust until he came and put a great smile on my face at my greatest surprise. Assume if you had ever also been a victim of scam, you should bother no more ok, I have bring you good news and the only lender you can trust, just contact them very via email : diegolendercompany@yahoo.com for more info on how to get your loan And also again thanks to Mr Mosun Diego for giving me a loan of \$4,000 US\$!!!

Thanks

freddy



Anonymous14 August 2013 at 02:20

My partner has been a victim of PNL. Difference is she stood up to them and they pulled it off the Court. Depends really on circumstances. Are you kidding? They're so lucky if they can give it away. You can prevent your contaminated brand becoming toxic. Did you? Have to say, your atmosphere didn't last quickly. The time to blog, I think you realize, has passed.

ReplyDown



3.

Anonymous15 August 2013 at 09:20

MY WIFE WOULD COMMIT SUICIDE SO SHE COULD END THE FALSE PROSECUTION AGAINST HER. OUR WHOLE FAMILY WERE AFFECTED BY THE FALSE PROSECUTION.

ReplyDown



4.

Anonymous18 August 2013 at 19:01

A fantastic summary of a truly tragic case. How hundreds of unsuspecting people suddenly became flawed? I doubt it. Unlabeled citizens who are often at the heart of these communities have been forced into accepting the

PNL have so much to answer for - how many lives have been destroyed?

ReplyDown



5.

Anonymous18 August 2013 at 02:25

I have bank of home or ATM generated pre-rolls, which show more cash holdings at the end of the day than at the start, without the machine being restocked. Reported stolen to the cops of 200 dollars, individual reported having this total claimed. All consecutive clearing empty, but the total totals indicating cash in the machine.

QV (A) system had over paid tax: ENR to verify the difference with the resources that the system
work gradually retrospectively. But since happened.
The amount you earned me to be suspended this year when I had an issue over rates applied to my
A.T.M. which was caused by 'miscommunication' being given to the rates authority by the Post Office I have
been reminded but have had considerable revenue which I can afford.

Reply/Delete



James Atkinson? August 2017 at 16:57

Good start and I trust you will keep your eye on this extremely important issue. But one thing I would
challenge you on, namely the proposal by the Post Office for the reassignment to Diamond Light. The very
fact that they were prepared to do that suggested to me that they did want, perhaps against their own
apparent interest, to resolve the matter for the good of everyone. Reassignment achieved. I thought that was
creditable.

And someone had to pay for it. I wasn't going to, the Government wouldn't have funded it and money from
somewhere else in order that the Post Office should be able to do so despite the risk involved to their reputation.
That does not feel good. ENR with the other way we've seen elsewhere in the public sector.

James Atkinson

Reply/Delete

Reply



Ray Claxton? August 2017 at 22:15

Perhaps the key question we would all like answered is
Has the systematic when even long-standing subcontractors been undertaken by 'a few
major industrial' acting on their own volition' or is it a result of that Office Ltd policy?
If it is the former, how have these industrial been allowed to break such trust?
If the result of the latter, how has a public body been allowed commit such acts?
Either way, the track starts with ENR. Time for them to dig deep and say for their
independence

With respect to the payment of that debt by ENR, being creditable, I beg to differ. ENR
are on the cusp of a significant public relations disaster relating a state owned institution

The current economic crisis has the potential to wipe out R&D as we know it. R&D firms consequently slow the speed and now they must reap the whirlwind.

David



Anonymous 27 January 2013 at 13:34

Hi Mr James, regarding, I think the oporities word of the Post Office (PAO) for the report by 2nd flight and why was it reviewed over 20 times by the Post Office before release and what exactly was changed in the report where is that information, that is the question you should be asking the Post Office

David

Reply



10

I would like to respectfully receive your challenge. At Anacostia, by creating out that when it comes to the
transmission of the first flight assignments in the above part I was repeating the latest opinion, come
that
my
own

That said, I do believe that companies never consciously act against their self-interest

The first Office does have taken a view that key (that) term monetary and reputational and budgetary by
conceding that flight is a better and is to be in that continuing their policy of denial

They would have continued to ignore the market interest, or the fact that you and your colleagues were
asking awkward questions. But that surely would have the long term effect of turning this into a far bigger
scandal than it already is.

ReplyDown



Anonymous:80 August 20 10 at 12:41

I am caught up in all of this and have been since the beginning of the year having worked on fiction in
several branches. I could write a book on all its flaws and how it makes transactions worse, even if you want to
waited for pig for over a decade but now with the possibility of prosecution I have never taken a penny
from them but have had to put in many a penny over the last decade. If your fiction happens to focus on
you have a power surge or cut any transactions you have in the so-called state are gone you have no option
but to report the system then when you run a transaction log there is nothing there it is as if the transaction
did not exist and any money are that into the fiction world I had a transaction correction come through my
letter in the sum of just over £2000 these transactions just appear on your screen from the present that the
you have no choice, either which means you agree to cover the transaction or settle cashably with a reason.
you disagree and they are used to send you more evidence of your business case. I pushed all the paper
work out for the letter and letters normally so I could not find what they were talking about they sent it to
me first time after numerous phone calls and me talking them there dates were incorrect for legal. They
had they realised that the error was indeed for another office half way up the country had I not have had the
years experience with this sort of thing I would have done what many do panic and accept the fine but is
but the example of many I could give of this fine I have had my job had an interview under caution twice,
several hours and my bank account looked into I have ring on several occasions to find what is happening
to be told they are conducting their investigations yet I am one of over 60 now in review as to whether to
prosecute me or not my life is in limbo

ReplyDown

Reply

1.



Anonymous70 August 2014 at 21:10

Points about (part of the) besting tactics employed by P.O.s. We identify the P.O. as being responsible and they will be held accountable. In my own case, I do not expect the P.O. employees who have committed mistakes to retain their employment with P.O.

I can demonstrate flaws on the part of the contractors, however and an intent to pervert the course of justice by the P.O. investigations department whatsoever. Do not let them get away with it. Let them out. An employer (P.O.) want to hold their hands up, corporately or if they want to bring a few of their staff out to court. Either way the individuals' involved must be starting the legal proceedings (and not making them).

Delene

Reply

12.



Anonymous22 September 2014 at 00:25

The post office are simply not willing to accept any responsibility when dealing with these problems and often use faulty lay tactics to get people to point guilty of certain things, would being charged with worse offences.

PaulOwens

13.



Anonymous48 September 2014 at 11:48

I have been informed by my brother (who is one of the sub postmasters affected by this) that a man at the West (through a sub postmaster affected by this) situation walked in front of a car the other day and is seriously ill. In fact, when are the P.O. going to what their officers etc. It is interesting that they hope to make millions from the stories of Royal Mail as they will shortly be paying out millions to the victims of their errors.

ReplyDelene

Replies

1.



Anonymous20 September 2013 at 22:14

What are the Network Engineers of Gatewatchpoint that they spend to do anything other than align themselves with Paul Gillett Ltd (PGL)? The HOSP is a cancer within the world of Selfishness, George Thomson (General Director, NEDP) should share his own responsibility or resignation.

delete

Reply

11.



Anonymous19 November 2013 at 11:53

I find the whole situation regarding no one seems to be questioning the PGL's Deal as one think that is rather suspicious that so many Site Postmasters are being accused of theft/loss. My sister is excluded in the deal in the space of 3 months I know of 3 other people also excluded. I have reports from PGL and show transactions on days that no one has actually logged onto the system. The accounts they give the PGL, really I don't mean the postoffice and link away the keys. Can any one explain that?

Reply/Cancel

12.



Anonymous17 November 2013 at 16:28

Your sister would be well advised to contact RGL, not GPT and Stranmillis members as soon as possible to be highly cautious about providing the money with the HOSP. Contact any responsible agencies, make notes and record telephone calls with PGL if possible.

Reply/Cancel

13.



Anonymous16 November 2013 at 20:44

As a software support engineer working on software users for many years I can state that there is no such thing as a random software error or an intermittent software error. If a problem is not through the circumstances of the user then software will not cause the issue. It is possible to have intermittent or random hardware errors but they can be identified by examination of the software output when issues

Reply/Denial

Reply

1.

Anonymous07 November 2013 at 20:53

Dear Mr. Sutherland, Support Engineer,

In readiness at my partner's (not Winter Nickel) the AEM (proven), when explaining how things go wrong, stated "This is a known problem that occurs sporadically." I can't doubt your substantial experience in your chosen field, but please do not attempt to transport rational thought into the circumstances surrounding N/A's two lines of logic regarding their output. We are dealing with the known malfunction on the part of PCL.

Create

Reply

17.

Anonymous22 November 2013 at 07:20

I wrote a comment on Facebook (with respect to) and brought up in all that had been used. Recently this year I was interviewed (at the location of my home in April) and was told I would be informed of the outcome in about six weeks, well I am still waiting having being the security manager who conducted the interview to be told once that my case had been sent for review with the relevant and to ring in another month long again to be told still in review and I was probably at the back of the line as there were in excess of 800 cases in review so am still in limbo not knowing if they are going to try to prosecute me for something I have not done my life is still in limbo I am still unemployed not knowing what to say at job interviews as to why I am in my last position my husband is now my ex-husband as he deserted me due to not being able to take the pressure of all this I just want off this case and done with.

Reply/Denial

18.

Michael Wilson25 November 2013 at 18:16

my brother is caught up in all this and I am still waiting for someone to get my then friend and say "sorry we got it wrong you are not a thief as we alleged". I understand that one sub-plotmaster being the Werni was an "insider" that he worked out in front of a case and then as a result of his rejection of the case from P.D.

said to my brother after he was disappointed and lost his job when he decided what he was to do to look after the family they said "you can run off the money you start from us" NewsBite is any I have it to be that person?

PostDelete

Reply



1

Anonymous: December 2013 at 10:41

You'll be waiting a long time for someone from PCH, to put back together an old world machine. They have these old machines, you know, even when they're wrong. They're right if the same objective were applied to PCH staff in PCH, apply to our government, instead of a few hundred more people on the other side. My experience is that if they have a disproportionate number of deadweight and no-outputs who couldn't lower a job application or some obscure function, to turn up for an interview. Any way that a once great institution has been managed into the ground by a bunch of reckless, uneducated knaves.

Delete

Reply



1

Anonymous: December 2013 at 09:12

Hi, I suffered a great deal from the hands of the post office and the errors on the website system. In the end when I was convinced of their loss of my business and should not my home. I have been having depression that was cured by the help, I have not, and even of the BSA. It makes me feel a great deal better to know that I am not alone in this situation. However the person contacted never responded. I posted this on December 2013 and I have missed the person.

Can anyone please advise me on how I can get my complaint heard?

PostDelete

Reply



1

Anonymous 18 December 2013 at 21:22

In the first instance contact Alan (Sales at WSA.

Colin

Reply

20



Anonymous 13 January 2014 at 17:11

Why is there a procedure for Horizon complaint re-new applications as it is obvious as more job-bids have to inform Sub-postmasters that they have received against the Post Office that otherwise they would be denied and accept the copying notices of the Post office the Meritdon Complaint codes should be rejected until there is satisfaction that all Sub-postmasters don't get present new when contacted and given the opportunity to put their case if they have a complaint

Reply/Cancel

21



Anonymous 18 January 2014 at 23:39

So the National Federation of Sub Postmasters has been removed from the list of Trade Unions and covered by workplace by INL for collective bargaining purposes.

What took so long for this statement of the bleeding obvious to arrive. I wonder there'll be every trade also for the NCFP by the commission to the Ump.

The objective abandonment of this newshour over this under Horizon after begins belief.

Talk about delivering money membership needs under false pretences, not to mention the vulgar news rejected from POE. I only like it's no longer an open secret, the NCFP is a posted firm - OTHOLD.

Reply/Cancel

22



Anonymous 5 February 2014 at 21:04

understand that the 'swapped' might have a whatnotower - (square P Q) - with your own, for mortgages & credit cards - you are soon going to have to find what's in common with & get back what you will then have to start explaining "WHY?!"

Reply/Date:

Details:



1.

Anonymous March 2014 at 11:23

PCI is obliged? The only thing the vendors of it is do is to their own interest. As soon as the right officers that own positions they might be persuaded into action. We are convinced it can't be done although do the right thing. They will do the most they can get away with to save the cost that can be saved.

The idea and intention of protecting interest of the founders. If not that, then, of honest, ethical, hardworking practitioners within the framework of PCI.

PCI management (including the board) don't choose between responsibility or reputation.

For years in various PCI, are experiencing difficulties affecting manufacturers leading to spent time and money to become sub-contractors. People who can't do everything in an industry or the needs of an organisation that doesn't pay a fee if the network is broken every bit of time.

Q: What do I need to get in touch with if I want to become a subcontractor?
A: A specialist.

Details:



2.

Anonymous 20 October 2014 at 13:34

That is funny, really useful reply

Details:

Reply:



Anonymous 19 March 2014 at 2:03

I have written on this subject before to report what was said by an Inspector as I had had my job and was possibly going to be reappointed by the Police. I have received a letter over a year

I write in regard to bringing attention to the fact that I have been advised of the above post

I am now able to advise that I received the above post and will therefore no longer

the letter is to confirm that following your signature with your name and address in May 2013 I had been

the fact I have received this letter it would not be to investigate the case

I have no further questions at this time and thank you for your attention

will be contacting them as per meeting to ask if this means I can have my job back as I have been

concern I have many other things to do and do not have time to do more than a few - run sure

Perthshire



Anonymous 19 March 2014 at 10:03

I have been advised that I have been advised of the above post

Perthshire



Anonymous 19 March 2014 at 10:03

In a sub office audit and our per former checks with the grace by giving the staff their own bills and our ck
units to be responsible for. In the past year I myself have had discrepancies of over £200 that cannot be
accounted for and believe me I've been over the numbers in my own. Fellow staff have similar
discrepancies ranging from hundreds to thousands of pounds a year. They are sometimes followed by
small recurring errors in the following months and years as if the system is suddenly taking money from no
where

We can never find and reason for these discrepancies in light of CCTV footage. Recently a member of staff
with over 8 years experience had £1000 during a 4hr shift having processed on transactions over £2000

We are always told that these errors are our fault due to lack of concentration, miscommunication or others. And
then we are forced to pay them back again, usually through our wages as amounts for over what can
legally be deducted from our wages. This caused one member of staff to be starting with their reduced
minimum wage for 3 months. All whilst being passed copies of our contracts or seeing a wage slip.

We have been through but never, no idea where it has. The support to our union for subpostmasters has not
fix the staff suffering at the whim of postmasters who hide their discrepancies by making staff responsible.

Reply/Quote

76

Michael Wilson 10 June 2018 at 11:30

I refer to my role of the 05th June 2018. I understand that at the request of the Writal sub-postmaster who
contacted outside, it was alleged that the date of birth was incorrect stated by the clerk brought about by
the P.O. claim against him -HOW LONG IS THE WORK DAY - THIS OFFICE YOU HAVE A LOT TO
ANSWER FOR THIS IS AN UNACCEPTABLE STATEMENT

Reply/Quote

77

Anonymous 20 July 2018 at 13:25

The current controversy situation will continue for a long time. All (except PCL) agree PMA have much to
answer for, but who is on the side of Post Office Ltd. I don't know it, they're not doing it - just don't bother
making any more noise. Mr. Vintola at all times to balance the possibility of total peace, investigation and
honesty of their board with respect to their victims. He is no doubt they will do the necessary required. This
will only occur if (using) the PCL direct control made possible due to negative press and their intention to
limit the damage to themselves. Please do not confuse the management of PMA with the Society,
honest and provided subpostmasters they look at all those in order to track their own shortcomings.

KuglyDwain

26.

Anonymous10 August 2014 at 01:56

Hi

Hi,

I thought I would keep you posted on my case. I noticed the deadline to get my case reviewed in the institution scheme, I have been dealing with the Post Office to see if they would consider looking at my case through the scheme as a late applicant. I received a letter from them saying that they will not look at my case via the scheme, however, they are willing to do an external investigation. I was appalled that this was even suggested! Any investigation into a case should be undertaken by an independent firm, after all POA have already investigated my case before they acted. So what would be the point of them carrying out a further investigation which would neither be open nor transparent?

Has anyone that is involved in the scheme got an update? I am curious to know how the investigations are going.

KuglyDwain

29.

Anonymous08 August 2014 at 17:22

I have just received a notice from my bank (Halifax) that with effect from the 31st October 2014 I will be able to pay my normal bills on my behalf via my Post Office. As the director of National Bank NBSI realises that the Post Office are exposed to some pretty heavy problems with their computerised accounting system and have risky numbers of people (including my brother) a multi-postmaster (copying all their bills) they are really struggling to get diversity letters.

amw.

Post Office

30.

Anonymous01 September 2014 at 18:40

Did you catch the tonight Mr. Venables news re carrying out why not hold your hands up !!

Billion 5/16/14

Report/Write

Copy:



I.

Anonymous September 2014 at 10:47

Mr Varma: Responsibility or responsibility? Your choice.

Direct

Reply



37

Anonymous10 September 2014 at 10:51

Dear Mr. Varma: [REDACTED]

Reply/Delete



38

Anonymous12 September 2014 at 11:09

credit to the fact that Office (Private) failed to document in the B.G.C. (??) - that then gives them the opportunity to ... ability ... increased ... it ... history ... "

Directly, weakly, (??) Critical !!

Reply/Delete



39

Anonymous11 September 2014 at 10:10

Directly going through this with the local office and trying to find any info that will help us. The latest report is the correct right report with along with data in looking for the true cause of problems.

Reply/Delete

Report



1.

Anonymous21 September 2014 at 18:28

you need Nick Wade's update at the beginning of this article - get in touch with Justice for UK - Prodigians & Bantz

Create

Reply



2.

Anonymous22 September 2014 at 23:08

The four other write to my MP on 10/01/14. They have said that as I missed the deadline for the scheme they are not willing to review my case under the scheme. Instead they have suggested that they themselves will review my case. How could this possibly be independent? The FISA section: me to write back and ask them to reconsider, then please advise me on what to do next?

Reply/Delete

Replies



1.

Anonymous23 September 2014 at 18:39

By contacting Charismatic solicitors. There is a strong possibility they will form part of the team that will be handling the inevitable cases at the agreed POC.

Delete



2.

Anonymous27 October 2014 at 17:08

Nick Wade is asking for victims affected by this scandal, and who was not part of the redress scheme, to get in touch with him.

Create

Reply

Christmas Day etc. we can clearly show that that is how we should answer WHY IS NOBODY
INTERESTED IN THIS INFORMATION? There are loads of people interested by this, but no one seems
prepared to actually do anything.

Page 2/2

Page 2

GRO

Book created November 08 11 at 17:28

to [Penny](#)

via [very](#) [interesting](#) [in](#) [the](#)

you can contact me either via my agent details at the top of the blog or twitter
[@pennyball](#) or [facebook](#) ([facebook.com/pennyball](#))

many [thanks](#)



Nick



Damon



Reply



08.

Anonymous14 November 2014 at 14:23



don't forget you guys, on Monday 3 PM NOV. at the house - and don't forget to go to church on Sunday - you need all the help you can get!!



Reply/Damon



09.

Anonymous9 December 2014 at 20:17



things is really exciting - out on Monday



Reply/Damon



07.

Anonymous7 December 2014 at 18:50



no make that Nov 08



Reply/Damon



01.

Anonymous9 December 2014 at 17:54



Hey, what's happening on the 08?



Reply/Damon



02.

Anonymous9 December 2014 at 18:02



have you not heard the TODAY prog. on radio this morning - catch the line below might see missed all
M.P.'S have withdrawn their support for the New Office in Bank attempts to rectify situation .

Ar. 1. said. before. You. for. MS. Vandalis. 11

This one you can't put it off!

Reply Delete



43

Anonymous December 2014 at 11:34

You need and waste my day! Thankyou. :)

Reply Delete



44

Anonymous December 2014 at 11:37

What does the means to you politicians now? We are still to close to justice!!

Reply Delete



45

Dave Yates December 2014 at 11:50

When I was 60 my dad got sent to prison for 10 months because of this, it is disgusting how the police
have been dealt with this situation and made incorrect police for my dad and like they are innocent
criminals. This has had to run my whole family's life for 11 years from knowing my dad at 5 years old to 17
years knowing he was under the same trial as murderers to even nearly losing our family home. The post
office need to grab what would have been and need they have made a mistake.

Reply Delete



46

Anonymous December 2014 at 11:53

Hi, I am crilly reading this, my Dad too got sent to prison nearly 11 years ago as he refused to plead guilty
to something he had not done, I shatterd my parents love, I was humiliated for them. Due to this, they

are digging out the paperwork and I have given them the number for anyone for postmarkers. I think the key to that is what the post office would do with any parcels were locked out of the post before the computer systems came in. They were often sending down any of your offices about around that time. Seems to me an easy way to find down offices without paying compensation to the post-agers. The post office have collected many parcels that get out and need investigating them when. Is there a report on the country search?

PostOffice



47.

Anonymous08 December 2014 at 10:00

I am one of the affected by the automation and for me the above comment says it all that is wrong with the Post Office's approach. They are modern machines facing behind forever and we are the people who have to deal with the consequences of their actions

PostOffice



48.

Anonymous09 December 2014 at 19:38

WATCH THE NEWS TODAY READ THE PAPERS SEE YOUR M.P. CONTACT J.F.S.A. SEE A SOLICITOR
B

PostOffice

Reply



1.

Anonymous10 December 2014 at 13:04

The significant volume of direct customer complaints on this evening's news, when the POA have attempted to make the MPs over the resolution scheme and that they have used "public" words is that attempts to do that.

My own view is that nobody no longer has the option between reparability or resignation. The business is not trading a public service and given the lack of confidence performed in any country, the should be dissolved

Ms Swire, in her capacity as Postal Affairs minister, may need to reverse her previously held position, given the wider implications referred to by the House and the Post.

Thank

Reply



49

Anonymous 10 December 2014 at 08:30

you has been covered in detail in a number of articles. Therefore Nick for his great attention to our plight on recent radio and TV, I want to suggest that that PDR's methods of financial entrapment and disposal of a misbehaviourer is a complex, but that needs more clarification, step by step, making it for the Government to get a clearer picture.

Reply/Retain



50

Anonymous 10 December 2014 at 09:35

I read your submission with great delight. HIGH WALKED GREAT WORK PLEASE KEEP ON HELPING US
to meet Basic Mail, Deliveries, Banks, Railway Network AND NOW THE POST OFFICE HAVE MISSED
PARLIAMENT
PLEASE ALL PRESENT AND PAST POST MASTERS/EMPLOYEES COME ALONG TO THE JIPA MEETING
ON THE 15TH JANUARY 2015.
WE NEED EVERYBODY'S SUPPORT TO FIGHT FOR JUSTICE. CREATE PEOPLE POWER.

Reply/Retain



51

Anonymous 10 December 2014 at 12:11

Visit today's Financial Times and in article giving radio & transcript plus an
unconventional coverage commentary, rights.

Reply/Retain



52

Anonymous 10 December 2014 at 21:52



Assignment 1 December 2017 at 10:00

asked to be prepared to answer the questions and a meeting to be held in the afternoon. In the afternoon the students were given the instructions. I have to give the students a clear picture of the other people.

Page 1/1



Assignment 2 August 2018 at 10:00

The assignment is to be completed by the students.

Page 1/1



Assignment 3 December 2018 at 10:00

asked to be prepared to answer the questions and a meeting to be held in the afternoon. In the afternoon the students were given the instructions. I have to give the students a clear picture of the other people.

Page 1/1



Assignment 4 January 2019 at 10:00

The assignment is to be completed by the students.

Page 1/1



Assignment 5 January 2019 at 10:00

The assignment is to be completed by the students.

Page 1/1



If an all party group of MPs are struggling to get the message to get up to the
responsibilities and they need to look then what chance has one individual within the
CMT?

Perhaps we need to get the current situation into perspective. PCB currently lack
transparency and accountability, NECP exist in the face of someone's opposition - they've
decided in their ignorant bliss how not knowing how to stop the thing and right matters.

As for the original point above, I think you're making a tick. We need to focus on what is
happening now with the NECP rather than stand on the past. I also see need to have the
relevant made for Freedom of Information on the matter.

Demis

Reply

61

Quentin (Sent from my iPhone) 2015 at 11:01

Hello everyone, My name is Christine Benham, a citizen of USA, am 47 years of age. I want to use the
medium to inform you all of our the problems of the kind for finally getting me to a really good position than
Kender names Mr Michael Dwyer, the managing director of Ekego Loan Company after been scammed by
other life less less, I was innocent and didn't know who to trust while he came and put a great smile on my
face of my greatest joy. Anyone of you that have also been a victim of scam, you should believe no
more scam, I have bring you good news and the only reason you reported, you created their new account ;
(legitimatecompany@outlook.com) for more info on how to get your loan. And once again thanks to Mr
Michael Dwyer for giving me a loan of 104,000.00 USD.

ReplyDemis

61

Anonymous 2015 at 22:15

18

At

When I watched the case show, Nick Webb mentioned that the current right legal case in April will 'include
rewards'. I was wondering if anyone has any idea of what may potentially be awarded? I am really anxious!
This has gone on long enough and we need justice. I am getting to the point of my father, was the court officer
and pay for what they have put us through!!!

ReplyDemis

ADD comment

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Post Office Media

Post Office announces independent mediation scheme for subpostmasters

Press Release Aug 26, 2013 23:00 BST



- introduction of scheme part of Post Office's commitments following findings of interim report into Horizon system
- Post Office committed to addressing concerns raised by sub-postmasters by reviewing their cases

The Post Office has today announced the introduction of an independent mediation scheme to address the concerns raised by some sub-postmasters regarding cases which they feel require further resolution.

This follows the publication of the interim report into the Horizon system produced by Second Sight in July. The report stated that so far no evidence of system wide (systemic) problems with the Horizon software had been found. However, it noted that improvements could be made in the training and support processes provided to sub-postmasters. In response to the report the Post Office has made a number of commitments, one of which is to create this independent mediation scheme for sub-

postmasters and the Post Office to investigate and try to resolve a sub-postmaster's concerns.

The Post Office, JFSA (Justice for Sub-postmasters Alliance), and Second Sight, the independent investigators, have formed a working group to collaboratively develop and monitor this scheme which is available to current and former sub-postmasters from 27 August 2013.

Commenting on the launch of the Scheme, Angela van den Bogerd Post Office Head of Partnerships said: "The Post Office is committed to addressing any outstanding concerns among sub-postmasters swiftly and transparently.

"As part of this commitment we set up an independent review which recently published an interim report which found that so far there was no evidence of any systemic issues with Horizon but did identify some further improvements we could make to our training and support arrangements, which we are taking forward.

"In addition, the independent mediation scheme we are announcing today will provide an effective way to assess and address any outstanding cases where sub-postmasters feel they have been unfairly treated.

"Sub-postmasters are the lifeblood of our business and we take their concerns extremely seriously. We hope the package of measures we are announcing will demonstrate our commitment to working closely with them to further improve our network."

Commenting on the announcement, James Arbuthnot MP, who is spearheading interest in the matter at Parliament, said: "I am very pleased indeed with the working group's proposed process. To my mind, it represents the very best chance all parties - individual sub-postmasters and misresses, and the Post Office have of ensuring the best outcome for everyone. It is fair, thorough, and independent."

Sub-postmasters wishing to submit an application should visit jfsa.org.uk for further information.

The Post Office is responding to the Second Sight report with three new initiatives aimed at addressing concerns raised, improving future processes, and examining potential structural changes to support sub-postmasters.

In addition to establishing the independent mediation scheme, a working group has been created to build on the work started by Second Sight last year and to develop it into this mediation scheme.

A new Branch User Forum is also being established to provide a way for sub-postmasters and others to raise concerns and insights around business processes, training and support, directly feeding into the organisation's thinking at the highest level. A key task for this forum will be to review support processes and training to ensure they meet the standards expected of the Post Office.

The Horizon system has around 68,000 users and processes more than six million transactions every day. The total number of cases put forward by users to Second Sight as part of its external review was 47, less than 0.1 per cent of the total number of users of the Horizon system.

The mediation process will be open both to subpostmasters who raised concerns through the Second Sight review, and also any who feel they have a dispute with the Horizon system (or an associated issue) which requires resolution. The scheme will involve cases being independently investigated by Second Sight followed, where appropriate, by a face-to-face discussion between the Post Office and the subpostmaster chaired by a neutral mediator.

The scheme is being supervised by a working group comprising representatives from Post Office, JFSA, and Second Sight. Any subpostmaster wishing to take part in the scheme must submit an application through Second Sight which will review each case for eligibility.

Contact - Post Office, Press Office

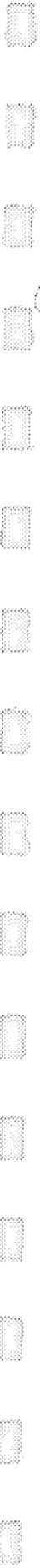
About the Post Office

The Post Office (Post Office Limited) has an unrivalled national network of over 11,500 branches across the UK, more than all the high street banks combined, and sits at the heart of communities in Northern Ireland, Scotland, Wales and England. The Post Office has made a commitment to maintaining its network of branches at its current size and reach. It provides around 170 different products and services spanning financial services including savings, insurance, loans, mortgages and credit cards, Government services, telephony, foreign currency, travel insurance and mail services.

The Post Office serves over 17 million customers a week and a third of small businesses. Some 98.7% of the total population live within three miles of a post office and over 87% live within one mile of a post office. For many rural communities, the post office is the only retail outlet. Post Office branches remain highly valued and trusted, and are the focal point of many communities. For more information, visit <http://www.postoffice.co.uk/>.

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#41.1
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Filename	S_25 Press Release announcing the establishment of the Scheme FINAL (1).pdf	ORIGINAL
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Initial Complaint Review and Mediation Scheme (to be known as the Scheme)

As you will be aware, Post Office has been undertaking an independent review into the Horizon system and associated issues.

Post Office is determined to ensure that Horizon and any associated processes are fair, effective and reliable, and that Subpostmasters can have confidence in the system.

In some instances, however, Subpostmasters allege that Post Office and Horizon have not met these standards. To address these concerns, Post Office appointed independent forensic accountants, Second Sight, to investigate this situation.

In collaboration with the Justice for Subpostmasters Alliance (JFSA) and a group of MPs led by the Rt Hon James Arbuthnot MP, Post Office established an Inquiry into Horizon. Second Sight was appointed to lead this Inquiry and has been working with a number of Subpostmasters for over 12 months. A copy of Second Sight's interim report is available at <http://www.postoffice.co.uk/post-office-statement-horizon>

Post Office now wishes to offer a Scheme to Subpostmasters so that individual Subpostmasters have an opportunity to raise their concerns directly with Post Office. In partnership with Subpostmasters, the JFSA, Second Sight and interested MPs, all sides can then work towards resolving those concerns.

Please find enclosed a pack of documents describing how the Scheme will work. We would be grateful if you could forward this letter and the enclosed pack to any Subpostmasters who you believe may be interested in this Scheme.

If a Subpostmaster wishes to take part in the Scheme he/she should:

- Carefully read the information enclosed with this letter.
- Complete and return an Application Form which can be found at www.jfsa.org.uk

A Subpostmaster is not obliged to submit his/her case through the Scheme and they may leave the Scheme at any time. Their legal rights will remain in full force, whether or not they choose to enter the Scheme.

A Subpostmaster's Application must be received by Second Sight by Monday 18 November 2013 if they wish to be involved in the Scheme.

This letter has been sent to a number of interested parties. It is therefore possible that a Subpostmaster may be notified of this Scheme more than once, but the Subpostmaster should only make one Application.

Yours faithfully

GRO

Angela Van Den Bogaert

www.postoffice.co.uk

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Filename	5.26 Letter to Subpostmasters about the Scheme FINAL(1).pdf	ORIGINAL
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Source	Date	Document	Key extract(s)
Bilag	5 Sept 2014	 No. 10000... Blue, 01 2014, 1000	<p><i>I would urge any disaffected supermasters reading this to get in touch NOW so far as I understand it, part of the process of negotiation is that you will be required to sign a gagging order which stops you, under threat of being sued, from talking to anyone, especially journalists, about any settlement or agreement you make with the Post Office.</i></p> <p><i>What I'm not clear on is whether the gagging order is signed before any settlement is agreed, or whether it's signed as part of the settlement. I can't imagine it's the former, but I did hear someone suggest it was</i></p> <p><i>Even assuming it's only signed on agreement of settlement, it's not ideal. You'll (hopefully) get some money back, but you won't be able to protest your innocence or tell the story of what happened to you to anyone, ever again.</i></p>

Nick Wallis Blog 9/9/2014

A lot of people are talking on my blog today. It's just as a result of a piece which went out on Friday 4th PM at 5.50pm

I have seen the report that Johnson was talking about and I am putting together a comprehensive update.

I would urge any unaffected stakeholders, including the target in such NCM. As far as I understand it, part of the process of resolution is that you will be required to sign a gagging order which stops you, under threat of being sued, from talking to anyone, especially journalists, about any settlement or agreement you make with the Port Office.

What is not clear on is whether the gagging order is signed before any settlement is agreed, or whether it's signed as part of the settlement. I can't imagine it's the former, but I did hear someone suggest it was.

Even assuming it's only signed on agreement of settlement, it's not ideal. You'll (probably) get some money back, but you won't be able to protect your innocence or tell the story of what happened to you to anyone, ever again.

I might have got this completely wrong, and there may be no gagging clause at all attached to the money being paid. People are being very cautious of the matter.

But whilst you are told to open the information about your situation now, it seems like there is a likelihood you won't see your case has been resolved. Which means there is a grave danger that story won't get properly told.

If your case were one of the ones up for resolution but you think you have a legitimate grievance, do get in touch anyway. I'd like to hear from you. I am only interested in hearing from anyone who has experienced fraud or theft via a security weaknesses.

Everything anyone tells me will be treated in the strictest confidence.

Follow me on twitter (@nick-wallis), ask me to follow you and we can exchange details privately, or email and find me on Facebook.

#336.1
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Filename	Microsoft_Word_Document1.docx	ORIGINAL
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Sir Anthony Hooper appointed as independent chair of working group overseeing initial mediation scheme for Subpostmasters

Press Release Oct 29, 2013 00:00 GMT



- Appointment part of Post Office's commitment to addressing concerns raised by subpostmasters
- Initial Mediation Scheme created to review cases

Post Office has announced that Sir Anthony Hooper has been appointed as Independent Chair of the Working Group overseeing the Initial Mediation Scheme established to address the concerns raised by some subpostmasters regarding the organisation's Horizon computer system and its supporting processes.

As an Independent Chair, Sir Anthony will provide leadership and scrutiny to ensure the scheme fully achieves its objectives in providing a forum for the resolution of subpostmasters' complaints.

As former Lord Justice of Appeal, Sir Anthony heard many criminal appeals, deciding complex issues of law and fact. He also presided in the Divisional Court. Sir

Anthony's particular areas of expertise have included fraud, money laundering, public interest immunity, employment law and all aspects of administrative law.

Commenting on the appointment, Angela Van Den Bogerd Post Office Head of Partnerships said: "We're delighted that Sir Anthony Hooper has been appointed as Chair of the Working Group. His wealth of experience in handling complex cases will be invaluable."

"Subpostmasters are the lifeblood of our business and we take their concerns extremely seriously. We hope the appointment of Sir Anthony as the independent Chair will reassure them of our commitment to ensuring all concerns are fully investigated."

The Mediation Scheme was established following the publication of the interim report into the Horizon system produced by Second Sight in July. The report stated that so far no evidence of system wide (systemic) problems with the Horizon software had been found.

However, it noted that improvements could be made in the training and support processes provided to subpostmasters. In response to the report the Post Office made a number of commitments, one of which was to create this Mediation Scheme. The Post Office, JFSA (Justice for Subpostmasters Alliance), and Second Sight, the independent investigators, have formed a Working Group to develop and monitor the scheme which is available to both current and former subpostmasters.

Alan Bates of Justice for Subpostmasters (JFSP) said: "We welcome the appointment of Sir Anthony Hooper as Chairman. The Working Group can only benefit from his considerable experience of dealing with complex issues such as those the case reviews will be dealing with."

Subpostmasters wishing to submit an application should visit jfsa.org.uk for further information.

Ends

The Post Office is responding to the Second Sight report with three new initiatives aimed at addressing concerns raised, improving future processes, and examining potential structural changes to support sub-postmasters:

In addition to establishing the independent mediation scheme, a Working Group has been created to build on the work started by Second Sight last year and to develop it into this mediation scheme.

A new Branch User Forum is also being established to provide a way for sub-postmasters and others to raise concerns and insights around business processes, training and support, directly feeding into the organisation's thinking at the highest level. A key task for this forum will be to review support processes and training to ensure they meet the standards expected of the Post Office.

The Horizon system has around 68,000 users and processes more than six million transactions every day. The total number of cases put forward by users to Second Sight as part of its external review was 47, less than 0.1 per cent of the total number of users of the Horizon system.

The mediation process will be open both to subpostmasters who raised concerns through the Second Sight review, and also any who feel they have a dispute with the Horizon system (or an associated issue) which requires resolution. The scheme will involve cases being independently investigated by Second Sight followed, where appropriate, by a face-to-face discussion between the Post Office and the subpostmaster chaired by a neutral mediator.

The scheme is being supervised by the Working Group comprising representatives from Post Office, JFSA, and Second Sight. Any subpostmaster wishing to take part in the scheme must submit an application through Second Sight which will review each case for eligibility.

Contact - Post Office, Press Office

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Filename	S.29 Press Release announcing the appointment of Sir Anthony Hooper FINAL(1).pdf	ORIGINAL
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Post Office Limited
148 Old Street
LONDON
EC1Y 9LQ
Tel: **GRO**

Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

26 November 2013

Dear James,

When we spoke in Edinburgh, we agreed to arrange a date to discuss the progress being made on the commitments the Post Office made following the publication of the Second Sight Report. Alwen will be in touch with Janet to find a suitable date in the first part of January.

I should like us to be able to update you both on the improvements we are making to the way we engage with subpostmasters, take their feedback and support them when things go wrong; and on the mediation scheme.

On the latter, we received 144 applications by the time the scheme closed on 18 November. The Working Group, chaired by Sir Anthony Hooper, has agreed a process to allow a proper investigation of applications accepted so that it can make an informed and evidence based decision on whether a case should proceed to mediation. Under this process, it may take longer than first envisaged before the first cases reach the mediation stage which is why I think it would be sensible for us to meet in the New Year rather than earlier. In the meantime, if there is anything you need to know, please do not hesitate to let me know.

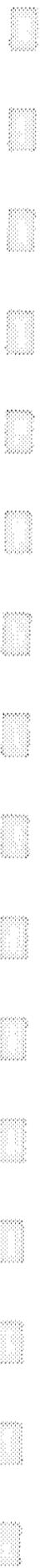
I look forward to seeing you and hope that in the meantime, you will have a good Christmas.

Scott Hales

GRO

#93.1
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Filename	5.21 Alice Perkins to Arbuthnot 28 Nov 2013(1).pdf	ORIGINAL
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Mr Nick Wallis
BBC Broadcasting House
Portland Place
LONDON
W1A 1AA

By post and email: rick.wallis@**GRO**

5 December 2014

Dear Mr Wallis,

Information regarding Former Post Office Agents

I refer to your email to Ruth Barker dated 5 December 2014, in which you assert:

"In the cases we are looking into, the common thread is a complete absence of any evidence of deliberate wrongdoing, let alone proof of criminal activity. Some have compelling evidence they are innocent of any crime or negligence. Some also have clear evidence of inexplicable errors made by Horizon."

Post Office's statutory disclosure duties in criminal proceedings require us to assess any material which might undermine a prosecution or assist a defendant (both in respect of an individual agent and in general). Please therefore provide to us a copy of the evidence to which you refer so that we may consider the extent (if any) to which it engages those duties.

Please pass this letter on to your legal advisors if you require assistance in responding. I look forward to your prompt reply.

Yours sincerely

GRO

Rodric Williams
Solicitor, Post Office Limited



www.postoffice.co.uk

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Filename	5.32 Post Office legal to Nick Wallis Dec 2014(1).pdf	ORIGINAL
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FINAL NOTE OF MEETING BETWEEN POST OFFICE AND RT HON JAMES ARBUTHNOT MP

28/01/14

930 - 1030

Attending : James Arbuthnot (JA), Alice Perkins (AP), Paula Vennells (PV), Janet Walker, and David Oliver

Alice opened the meeting setting out that there were two themes that she wished to cover :

- The current and future running of the Post Office
- The mediation scheme itself

For the current running of the Post Office there had already been a number of significant changes and there were more in the pipeline. This was very important as it effected large numbers of people and acted as a preventative measure to ensure that we did not face a similar situation (as that the Scheme was dealing with) again.

For the mediation scheme it was moving forward more slowly than we had hoped in part that was due to it receiving more than twice the number of applications and in part as Post Office were investigating the cases extremely rigorously and using the first wave of cases to ensure that we got the process right and that this was an area of particular concern to the Working Group chair Sir Anthony Hooper.

JA thanked AP for her comments and observed that he had received feedback on AH that he was a really good man doing a really good job. PV commented that she was glad of that fact and that AH was also being tough and challenging to Post Office and that she really valued that.

JA then moved the meeting on to an area of importance to both him and other MPs. JA questioned how they will be kept in touch with the scheme's progress. JA set out the need to reinstate the meeting which had previously been due to take place in October between Post Office and MPs. JA explained that he was beginning to get calls to bring this meeting forward particularly, as he was aware from Second Sight, all of the MP cases had been moved into the Scheme and MPs had not been updated on them for quite a while.

AP responded that the communications with MPs were a very good thing but that we needed to also ensure that the mediation scheme was allowed to progress. JA suggested that the meeting could be held before the first cases had exited mediation and could update MPs on both the progress and the process that was underway. It was agreed that this was a good idea. PV talked JA through the timescales with the first cases not due to reach mediation until March. PV also suggested that the meeting with MPs would also provide a good opportunity to talk them through the Business Improvement Programme and the steps that have been taken with the existing cases for example 325 cases had been reviewed for disclosure, 21 further disclosures had been made and to date no appeals had been received.

JA commented that he was very impressed with the general approach that Post Office were taking. PV commented that Post Office were taking the issue very seriously and that was why they had committed 22 investigators, funded professional advisors for the applicants and funded the provision of an independent mediator.

There was a discussion of who else should attend the briefing with JA suggesting that JFSA and Second Sight should attend. Post Office undertook to consider this and confirm to JA's office.

ACTION Post Office and James Arbuthnot's office to arrange a meeting with MPs and Post Office.

ACTION Post Office to consider additional attendees particularly JFSA, Second Sight and Anthony Hooper and come back to JA's office early W/C 3 February.

The handling of the meeting was discussed including the need to avoid skewing of any particular case through lobbying. JA commented that he thought that MPs would wish to raise compensation for specific cases particularly those where Post Office had dropped a prosecution at short notice. In particular JA cited the case of Kevan Jones' constituent where Kevan had reported that Post Office had first lost the case file and then dropped the case. PV commented that she had not heard of this issue but would look into it. PV stressed that JA should always feel free to raise issues of that sort directly with her.

ACTION Post Office to talk to Janet re the letter inviting MPs to the meeting and agree the "ground rules" to go in the letter.

ACTION Post Office to arrange a pre meet with JA around ahead of the MPs meeting

ACTION PV to look into the Kevan Jones case

Discussion then moved to Second Sight and their work. JA commented that he thought that both JFSA and Second Sight were attempting to deal with issues without raising them to PV. Second Sight though had raised some concerns with JA. In particular they had raised a concern about the turnover of staff on the programme. PV disagreed on this issue pointing out that Angela VDB and a team supporting her had been a member of the programme since the outset and that Belinda Crowe had been working on this for several months.

JA then raised the issue of Second Sight's employment and the draft Post office letter of engagement. JA raised that he did not understand why Post Office were drafting a letter of engagement when he had a letter from Jo Swinson (NB letter to Alan Bates dated XXXXXX) that made clear Post Office did not employ Second Sight. PV clarified that the letter made clear that although Second Sight were not employed by Post Office they were engaged by Post Office in the same way that any independent professional service might be and were accountable to the Working Group. JA accepted this and it was also confirmed that JA did not engage Second Sight.

PV then talked through the process that Post Office was going through to investigate the cases and the reports that Second Sight would be providing on each case. PV explained that as Second Sight were now reviewing every case, their previous work for MPs and on Horizon had been subsumed within their work on the Scheme which now needed to be their sole focus. JA raised the issue of a final report, which PV thought could be provided at the end of the mediation as there was a need to

avoid prejudging the mediation process. JA questioned whether this report could not be published earlier and suggested that Second Sight could produce a report for the end of February. PV explained that that would not be possible and that Second Sight needed to keep matters internal while the mediation was ongoing but that there could be a report at the end. AP made the point that it was not helpful to provide a running commentary and that there was a need now to focus on delivering the Scheme. JA accepted these points.

Returning to the engagement letter JA commented that Second Sight were particularly exercised by the clause limiting their ability to speak to MPs about the Scheme.

AP said that Post Office should have had a letter of engagement in place with Second Sight from the start and that this was now putting that issue right. JA agreed that there should have been a letter in place. PV suggested that if Second Sight's nervousness was that Post Office was trying to restrict them from raising issues she could assure JA that that the engagement letter was not designed to restrict in any way Second Sight's ability to investigate issues with Horizon that were raised by applications to the Scheme; she would consider with advice from Chris Aujard whether she could write a letter to Second Sight providing assurance that they could always raise issues directly with her and that they could continue to update JA on the progress of the Scheme and continue to raise matters directly with James Arbuthnot in the same way as they had previously. JA commented that he felt this would help, he then also raised the clauses restricting the areas that Second Sight could provide comments on. In particular JA raised the restriction on commenting on Criminal Convictions, Post Office's prosecution policy and the legal liability that Post Office might have towards any particular Subpostmaster.

PV commented that the priority had to be getting the cases through the Scheme and that Second Sight needed to focus exclusively on that. PV also commented that Second Sight would not be advising Post Office on Criminal Cases or their Prosecution Policy as they were forensic accountants and not lawyers. PV reiterated that the only work that Second Sight were currently engaged by Post Office to deliver was the work on the Scheme. AP pointed out that in terms of any spend by Post Office they are a publicly funded organisation and the Post Office Board would wish to consider whether any further work by Second Sight was good value for money given the amount of money being spent on the scheme and the need to be able to assure external parties such as the NAO that good value for money was being obtained. PV offered that if a meeting with her would be helpful then she was happy to do that. JA thought that would be helpful, particularly as Second Sight were concerned that PV was not being briefed on issues.

ACTION Post Office to arrange a meeting between PV and Second Sight.

Discussion then moved to the Business Improvement Programme. PV talked JA through the changes to the Post Office suspension policy and the change that had had on performance. JA commented that this was a dramatic change. PV commented that the policy was more sensible and sensitive and that it was coupled with increased training and support to Subpostmasters. PV also talked through the changes to the termination policy including the new category of suspended termination. PV explained that the business improvement programme had nine different workstreams and was run as a separate programme from the mediation reporting into the network director.

PV then raised Post office's prosecution policy. First she clarified with JA that Post Office was not a prosecuting authority and had not been so since 1985. Since 1985 Post Office had been taking forward private prosecutions on the same basis as any company or individual in England and Wales can. The Post Office Board had not yet taken a view on what the final policy should be but they were considering how (including looking at how retailers and banks prosecute) what the policy should be moving forward particularly as Post Office expected the numbers prosecuted to decrease in a similar way to the decrease in suspensions. JA commented that this would be a difficult dilemma for Post Office to balance supporting their agents and protecting public money.

PV then updated JA on the work being done to develop the successor to the mediation scheme. This work was currently at a very early stage but was important to Post Office for the future.

At the end of the meeting there was a short discussion of the length of Anthony Hooper's contract. PV reassured JA that there was no intention to change the Chair of the Working Group and that the contract length was just a function of the original expectation for the timetable to complete the scheme.

David Oliver

07/02/2014

#216.1
Metadata

Filename	6.3 PV meeting with Arbutnot 28 Jan 2014{1}.pdf	ORIGINAL
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From: Melanie Corfield [mailto:melanie.corfield@postoffice.gov.uk] (GRO)
To: Mark Underwood [mailto:mark.underwood@postoffice.gov.uk] (GRO)
Subject: FW: Post Office - proposed meeting
Date: Wed, 14 Oct 2015 11:26:45 +0000
Importance: Normal
Attachments: Post_Office_Mediation_Scheme_meeting_agenda.docx

was just looking for something else and found this. Worth keeping amongst all the QC stuff perhaps.
Mel

From: ARBUTHNOT, James [james.arbuthnot.mp@parliament.uk] (GRO)
Sent: 17 February 2014 12:12
Subject: RE: Post Office - proposed meeting

Dear Colleague,

As promised, the meeting to update you on progress of the Post Office mediation scheme will now take place on Monday 24 March, at 5.45pm, in Room T in Portcullis House. I attach an agenda which we will follow to give us the most use out of the hour available. I hope you will be able to attend and would be grateful if you would let me know. If you can't, you are welcome to send a representative from your office, but again, I should be grateful if you would let me know.

I would like to mention a couple of matters in advance of the meeting. The mediation scheme is running, and we must take care both to respect the privacy of individual applicants and to avoid skewing the mediation process. Individual cases will not be up for discussion, but I am sure that if any colleague wanted to seek a separate meeting with Post Office to discuss an individual case, Post Office would be happy to arrange this separately.

I hope this is helpful, and look forward to seeing you on Monday 24 March.

Yours ever,
James

Office of the Rt Hon James Arbuthnot, MP
House of Commons
London SW1A 0AA

Website: www.jamesarbuthnot.com

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UK Parliament (Fishburn)

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Post Office Mediation Scheme meeting

Monday 24 March, 5.45pm

Room T – Portcullis House

Agenda

1. Welcome and intro – 5 mins
2. Update on progress with mediation scheme and business improvement programme – 15 mins
3. Second Sight update – 10 mins
4. JFSA update – 10 mins
5. Q&A – 20 mins

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Filename	Post_Office_Mediation_Scheme_meeting_agenda.docx	ORIGINAL
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148 Old Street
London

EC1Y 9HE

T [GRO]

E.paula.vernellis [GRO]

The Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

14 May 2014

PRIVATE AND CONFIDENTIAL

Dear James

Thank you for your letter of 1 May. I too share your concerns about the progress of the Mediation Scheme, and appreciate that other MPs may become increasingly concerned the longer it is before we can update them.

I can assure you we remain determined to investigate cases as quickly as possible, which is why we have committed substantial resources to support the Scheme, including paying professional advisers to help the applicants, appointing 22 investigators alongside our dedicated programme team, and paying Second Sight to review each investigation. We are making progress: of the 137 sub-postmasters who initially applied for the Scheme, 70 have now submitted the more detailed information which is required for the next stage of the process, and of these the Post Office has already completed 22 investigations with the others currently underway.

However, the fact remains that every stage in the process is taking longer than originally envisaged. Second Sight have only just submitted their first case review this week – a significant milestone, but one which also highlights the substantial volume of work still to be completed. Furthermore, my understanding is that Second Sight's interim report on thematic issues, originally intended for March, is yet to be completed. But given the slow progress of their case reviews, a thematic report should not be the focus of their efforts at this stage. Indeed, the content of any thematic report is dependent on the facts and evidence derived from investigating these cases, and therefore it would be premature to produce and release such a report before more progress had been made on the investigations.

There is one other issue which I would like to take this opportunity to address. I am aware that you have received a copy of some correspondence between Alan Bates and Jenny Willott MP. It is worth noting that the Working Group Chair has felt that he should write to the Minister addressing the points made in Mr Bates' letter. I too have outlined to the Minister my concerns with the letter, which I believe risks undermining the proper operation of the Working Group (and, in turn, the Scheme itself). In particular:

1. Contrary to the Working Group's Terms of Reference, the content of the letter discloses information that is confidential to the Working Group.

www.postoffice.co.uk

2. It contains several factual inaccuracies and paints a picture which is inconsistent with both the current and historic position. For example, the Post Office had produced 20 reports for the Working Group's consideration at the date Mr Bates wrote, rather than none as he suggests.
3. The fact that Mr Bates has bypassed the structure of the Working Group to raise concerns is disappointing and, in my view, contrary to the spirit of the Working Group.

This clearly remains a complex and challenging programme, and we need to focus on how best to resolve the cases in as swift and orderly fashion as possible. I am very happy to keep you updated and would also welcome the opportunity to discuss some of the issues outlined above in more detail if that would be useful. As part of that discussion we can consider how best to provide further updates on the Scheme to other interested parties at this delicate stage of proceedings. I have some reservations about your suggestion of sharing our previous correspondence on this matter, as I believe it may be counter-productive at this stage given the subtleties and sensitivities at stake. We can consider the alternative options for managing expectations about the next steps when we meet.

Yours sincerely

GRO

Paula Vennells
Chief Executive

#118.1

Metadata

Filename	6 9 PV to Arbeitnet 14 S 2014(1).pdf	ORIGINAL
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From: The Rt. Hon. James Arbuthnot, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

20 May 2014

Paula Vennells
Chief Executive
Post Office
148 Old Street
London EC1V 9HQ

Dear Paula,

Thank you for your letter of 14 May. I appreciate all of what you say I although continue to be worried about the time it is taking for the case reviews to appear, particularly as I know that case reviews are only the beginning of the mediation process. I am rather taken aback by the fact that only one review has been completed thus far. This does not mean that I view the process with scepticism. It does, however, mean that you and I are going to have to work hard to ensure that the more restive members of our group are reassured throughout the process.

To this end, I wonder if you might give some thought to what I might convey to MPs regarding the proposed July meeting? I want to send them some news. Might you let me know your thoughts on this? I can certainly report that only one case review has been finished, and that the report we all believed Second Sight were preparing for late March has yet to appear, but I would like to offer them something by way of an explanation as to why things are taking so long. Might you draft something for me to consider circulating? I would be most grateful if you could help in this matter.

You raise the matter of Alan Bates writing to the Minister. The Minister has done quite the correct thing by telling him that she has no operational jurisdiction over the Working Group, and by letting both you and Sir Anthony know that he had been in touch with her.

Alan is a thoroughly good man, and must be facing some rather hefty pressure from individuals to have their cases resolved swiftly, so I am inclined to forgive him but the question remains: why did he not feel he could approach either Sir Anthony or you directly with his concerns? Do you know why this might be? I wonder whether it might be worth the three of us – you, me, and Alan – meeting to clear the air?

I have written to him expressing my own concerns about his taking the tack he has and stating that I would not want to see the Working Group and its process placed in any jeopardy, but often a face-to-face meeting is a much better way of sorting things out.

Let me know what you think.

GRO

#176.1
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Filename	5.10 Arbutnot letter to PV 20 5 2014(1).pdf	ORIGINAL
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148 Old Street
LONDON
EC1Y 9AD

For the attention of Mrs S Berlin
Criminal Case Review Commission
5 St Philip's Place
Birmingham
B3 2PW

Date 5th June 2014

Dear Mrs Berlin

Horizon Computer System

I refer to your email dated 16 May 2014 and confirm that my predecessor, Susan Crichton left the business at the end of October 2013. I apologise for the fact that you have not received an update on the progress of the review undertaken by POL and hope to rectify that with the information set out below.

I confirm that Brian Altman QC completed his review of POL's strategy and process for reviewing past/current prosecutions given the findings of the Second Sight interim report to which Susan Crichton referred in her letter to you dated 26 July 2013.

As you would expect, Mr Altman's review was thorough, leading to a detailed report, and I am pleased to confirm that overall, his view was that the review (carried out on behalf of POL by an external firm of criminal specialist solicitors) was fundamentally sound, and he did not detect any systemic or significant flaws in the review process, or in the evidence arising from it. He did however highlight that because POL has a continuing duty of disclosure, both POL and the external firm of solicitors with vast experience of managing and prosecuting these cases, must remain prepared to keep under review, and reconsider, past case reviews and disclosure decisions.

To give you some detail, the process involved reviewing all cases (both Crown Court and Magistrates' Court) going back to 1 January 2010 (this being the earliest date on which Horizon Online was migrated into all post office branches and is a start date which Mr Altman QC considered to be logical, proportionate and practicable in light of the known circumstances). Essentially the scheme involved POL's solicitors identifying every case within the above mentioned review period in which the primary or main evidence against the defendant was based on Horizon data, and included also those cases involving suggested problems with Horizon training or support. This was done by a rigorous sift review process. Once a potentially affected case was identified, senior in-house prosecutors at the external firm of solicitors carried out a full case review to determine the essential question "Had POL been possessed of the material contained within the Second Sight interim report during the currency of any particular prosecution should/would POL have been required to disclose some or all of that material to the defence?" In cases in which convictions had been obtained, this also meant considering material for disclosure, which might cast doubt on the safety of the conviction.

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The process involved POL's external solicitors carrying out a sift of 308 case files, a second sift of 229 cases, a full review of 53 cases (in which disclosure was advised in 26 cases), and the discontinuance of 4 cases.

I can confirm that since the publication of the Second Sight interim report on 8 July 2013, and despite POL's thorough review, POL has, to date, not received any application for permission to appeal to the Court of Appeal.

I appreciate that the above is a short precis of a very extensive procedure and should you have any further questions/require any further clarification, please do not hesitate to contact me.

Yours sincerely

GRO

Chris Aujard

For and on behalf of
Post Office Limited

#268.1
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Filename	6_14 Signed Ir to S Berlin 5th June 2014(1).pdf	ORIGINAL
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148 Old Street
London
EC1V 9HQ

E paula.vennells

GRO

The Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

12 June 2014

PRIVATE AND CONFIDENTIAL

Dear James

Thank you for your letter of 20 May. I appreciate that as we approach the summer recess MPs would like an update on the progress of the Mediation Scheme and agree that it would be helpful for you to send one. However, I would like to consult with the Chair of the Working Group, who has been abroad for a period of time, about what should go into such an update. I do not think the correspondence between the two of us, which is confidential, would be suitable to release for this purpose, but subject to Sir Anthony's views I am sure we can work with your office to develop an appropriate update.

On the matter of Alan Bates' letter, this was discussed in detail at the Working Group and afterwards the Chair wrote to the Minister correcting some of the inaccuracies. JFSA have continued to be an active participant in the Working Group and on that basis I do not think that a 'clear the air' discussion is needed at this point – but we will of course keep this helpful offer in mind as the scheme progresses.

I will be in touch again once I have discussed the proposed update with Sir Anthony.

Yours sincerely

GRO

Paula Vennells
Chief Executive

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#131.1
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Filename	6.15 PV letter to Arbuthnot 12 6 2014(1).pdf	ORIGINAL
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148 Old Street
London
EC1V 9HQ

E paula.venneils

GRO

The Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

2 July 2014

Dear James

Further to my letter of June 12 about providing MPs with an update on the progress of the Mediation Scheme, I have consulted with the Chair of the Working Group. As we all agree, it would not be appropriate to release confidential information relating to individual cases, but I attach at Annex A an update about progress of the Scheme, agreed by Sir Anthony, which could be circulated to MPs.

The focus is very much on enabling cases to move through the process as quickly as possible, whilst maintaining a thorough, fair and consistent approach. We would therefore be unable to give more information in a meeting with MPs than the overview of the Scheme's progress provided below.

I hope this is helpful.

Yours sincerely

GRO

Paula Venneils
Chief Executive

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Annex A

Scheme Update (as provided by Sir Anthony Hooper, Chair of the Initial Complaints Review and Mediation Scheme)

In total, 150 applications have been made to the Scheme. Of those, 4 were rejected as ineligible under the terms of the Scheme.

As of the 24th June:

- 11 cases have been resolved prior to mediation
- Post Office has completed 30 investigations
- The Working Group is awaiting 29 Case Questionnaire Responses from applicants or their advisers
- Second Sight have completed 8 case reviews
- 2 cases have been passed to CEDR, the independent mediators for the Scheme, to arrange mediation.

There have unfortunately been delays in the progress of the Scheme. It has taken longer than anticipated to retrieve the information required to investigate the cases.

In addition, the Working Group has had to give applicants more opportunity than originally anticipated to clarify their Case Questionnaire Responses and to comment upon Post Office and Second Sight reports. This has the advantage that if a case reaches the mediation stage it should require little further input from applicants.

Each week the Working Group discusses the progress of the Scheme and tries to ensure as speedy a resolution as possible.

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Filename	6.16 PV to Arbutnot 2 7 2014(1).pdf	ORIGINAL
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From: The Rt. Hon. James Arbuthnot, M.P.



HOUSE OF COMMONS
LONDON SW1A 9AA

8 July 2014

Paula Vennells
Chief Executive
Post Office
148 Old Street
London EC1V 9HQ

PV
1900



Dear Paula,

Thank you for your letter of 2 July 2014, which reached my office this morning.

I understand your reticence about reporting anything further to MPs than is covered by the Annex to your letter. I will circulate this to the group who will, I suspect, be disappointed that no further news can be offered.

What I propose to write to them via email is as follows:

"I had hoped that we could schedule a meeting before summer during which the Post Office might offer us an update on how the mediation scheme is progressing. To this end I have been in correspondence with Paul Vennells, the Chief Executive. I attach an update from her office, which I have just received.

It appears that not a great deal can be added to what was said in our last meeting. I see no point in trying to push for a meeting which offers no further detail than we heard at the last.

I understand and am concerned that the investigations and reviews are taking longer than any of us anticipated. It is possible (though I have not been told so) that the Post Office considers that nothing can be said about any individual case until something can be said about all of them. Perhaps there is a risk in the mind of Sir Anthony Hooper that to release the result of one case might create pressure on another.

I intend to press the Post Office on this point, to reconfirm the need to give us all some substantial information, and to come back to you with a further update in September.

I hope you might be content with this approach."

I plan on sending this at the end of this week. If you would like to suggest any amendments, could you do so by close of play Thursday 10 July please?



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Filename	6.17 Actuthreat to PV 8.7 2014(1).pdf	ORIGINAL
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From: "Melanie Corfield"

To: "Ruth X Barker" [GRO]

Cc: "Nina Arnott" [GRO]

Subject: FYI - James Arbuthnot note

Date: Thu, 17 Jul 2014 11:13:55 -0000

Importance: Normal

Attachments: Post_Office_note_July_2014.pdf

Hi there

Here's the note (below and with Paula's note attached) that went out to relevant MPs from JA yesterday.

There is an updated set of reactive Qs and As which Belinda has gone through and I will circulate after Brunswick has sense checked them.

Mel

From: ARBUTHNOT, James [mailto:james.arbuthnot.me] [GRO]

Sent: 16 July 2014 11:29

Subject: Post Office - proposed July meeting

Dear Colleague

I had hoped that we might schedule a meeting before summer during which the Post Office might offer us an update on how the mediation scheme is progressing. To this end I have been in correspondence with Paula Vennells, the Chief Executive, to see what might be arranged.

It appears that not a great deal can be added to what was said in our last meeting. The mediation scheme is progressing, but at a slower pace than any of us would have liked. Rather than hold a meeting just before Recess that will not reveal more than we already know, I would rather wait until autumn, but I do want to get a date in the diary for a meeting then.

I attach a note that Paula has sent which sets out the progress made since our last meeting. She has reiterated to me that the integrity of the mediation scheme requires that confidentiality of cases be respected. In a letter to me she has also said that individual case details may not be shared with us at any point, including at the end of the Scheme.

I would like to believe that at the end of the Scheme we will be presented with a report which shows why and how we got to the stage where so many individuals were (and still are) coming forward with their concerns and their often harrowing stories. I do believe that the mediation scheme has a good chance of righting things, but we shall all need clarity as to what happened and why, and how it is being put right.

Yours ever,

James

Office of the Rt Hon James Arbuthnot, MP
House of Commons
London SW1A 0AA

Website: www.jamesarbuthnot.com

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Filename	5.18 Arbutnot_email to MPs 15 July 2014(1).msg	ORIGINAL
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Annex A

Scheme Update (as provided by Sir Anthony Hooper, Chair of the Initial Complaints Review and Mediation Scheme)

In total, 150 applications have been made to the Scheme. Of those, 4 were rejected as ineligible under the terms of the Scheme.

As of the 24th June

- 11 cases have been resolved prior to mediation*
- Post Office has completed 30 investigations*
- The Working Group is awaiting 29 Case Questionnaire Responses from applicants or their advisers*
- Second Sight have completed 8 case reviews*
- 2 cases have been passed to CEDR, the independent mediators for the Scheme, to arrange mediation.*

There have unfortunately been delays in the progress of the Scheme. It has taken longer than anticipated to retrieve the information required to investigate the cases.

In addition, the Working Group has had to give applicants more opportunity than originally anticipated to clarify their Case Questionnaire Responses and to comment upon Post Office and Second Sight reports. This has the advantage that if a case reaches the mediation stage it should require little further input from applicants.

Each week the Working Group discusses the progress of the Scheme and tries to ensure as speedy a resolution as possible.

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25 July 2014

Initial Complaint Review and Mediation Scheme

BRIEFING REPORT - PART ONE

PREPARED BY

SECOND SIGHT

This Report and accompanying documents are confidential and are not to be disclosed to any person other than a person involved in the processing of Applicants' claims through the Scheme

Part Two of this report will be provided where necessary to the processing of an Applicant's claim

1. Introduction

- 1.1. This report describes some aspects of Post Office branch operating procedures and related functions of the Horizon system. The report has been prepared by Second Sight, which is the trading name of Second Sight Support Services Limited, the company appointed to conduct an independent investigation of a number of matters raised by Subpostmasters, or former Subpostmasters.
- 1.2. Horizon is the electronic point of sale system, which together with associated back office functions is used across all Post Office branches to process and record a wide range of transaction types. The term "Horizon" is used throughout this report to refer to both the original Horizon system, which dates back to 1995, and the current version of Horizon, introduced in 2010, known as Horizon On Line. Where important, the differences between the two versions are explained. The Horizon system, including the main technical aspects of the two versions, is described in more detail later in this report.
- 1.3. A *Glossary of Terms* has been provided by Post Office and is attached at *Appendix 1*. Examples to demonstrate how an individual transaction or process operates have been included where relevant.

2. Structure of this document

- 2.1. This document comprises seven major sections providing:

- General information about Post Office, its branches and the role of Subpostmasters;
- A description of the training and support functions as well as the Post Office audit and investigation processes;
- An overview of the Horizon system and associated equipment;
- An introduction to the application of double entry accounting in Horizon;
- A description of significant branch operating and reporting procedures and the associated processing of transactions;
- An outline of the treatment of losses and surpluses; and
- An analysis of typical errors.

3. Post Office Branches and Subpostmasters

- 3.1. The Post Office was part of the Royal Mail Group until the two businesses separated in April 2012. The majority of its income is self-generated, but it does receive financial support from its ultimate shareholder, the UK government.

- 3.2. Including staff in Crown branches (see below), Post Office directly employs almost 8,000 people, in support of the Post Office network. These management and support roles include central staff as well as field-based sales, development, training, audit and security teams.
- 3.3. In addition there are approximately 6,000 Subpostmasters, who are the main focus of this report, and employees of "Multiples" (see 3.32).
- 3.4. Post Office's network of around 11,500 branches provides a range of approximately 170 products and services, as described by Post Office. This is set out in *Appendix 2*, including banking and access to government benefits. Some of the consequences of providing such a wide range of services are considered in Part Two of this report.

Subpostmasters

- 3.5. The majority of Post Office branches are run by independent Subpostmasters and are known as "Agency" branches. Subpostmasters are, in the main, individuals who are contracted to run Post Office branches. They operate as individual contractors rather than as employees of Post Office and their position can be considered as being similar to that of a franchisee.
- 3.6. Before appointment as a Subpostmaster, the applicant is vetted by Post Office for suitability and is appointed under the terms of a standard contract (see 3.13 onwards for more details).
- 3.7. Prior to 2001 Post Office sometimes charged a new Subpostmaster a fee in recognition of the benefit arising from being granted the opportunity to run a Post Office branch. This fee took the form of a 25% abatement of the Subpostmaster's remuneration for the first year following appointment, but we are advised that such charges have now ceased.
- 3.8. Should a Subpostmaster either resign or serve notice to terminate their contract for services then Post Office will normally seek to appoint a replacement Subpostmaster to the branch. If there is no transfer of premises or retail business as part of the replacement appointment process, as described below, then Post Office may levy an introductory payment on the new Subpostmaster. Although this charge is not made in all cases it would be made as an upfront charge at the start of the new Subpostmaster's contract for an amount equivalent to 25% (plus VAT) of the gross remuneration for the branch in question.
- 3.9. As noted above, it is possible that as part of the appointment of a new Subpostmaster to an existing branch, there could also be a transfer of premises and/or ancillary retail business from the old to the new Subpostmaster. In such cases there would normally be an additional financial agreement, effectively equivalent to a payment for goodwill, between the parties.

Temporary Subpostmasters

- 3.10. In the event of a Subpostmaster being either suspended, or his/her contract being terminated, a Temporary Subpostmaster may be appointed to take over the running of a branch.

- 3.11. Temporary Subpostmasters operate the branch and receive remuneration from Post Office under the same contract terms as Permanent Subpostmasters, except that their notice period is one week rather than three months. The terms under which a Temporary Subpostmaster will operate from an incumbent Subpostmaster's premises will be agreed between the parties. Typically, this involves the Temporary Subpostmaster paying a weekly or monthly "rent" to the incumbent Subpostmaster.
- 3.12. Post Office keeps a list of pre-approved Temporary Subpostmasters who can be called upon at short notice to take over the running of a branch in order to allow continuity of service.

Subpostmaster's contract

- 3.13. The majority of Subpostmasters currently provide services to Post Office under the terms of a standard contract. Although subject to several revisions over the years, it is understood that the core principles of the contract have generally remained unchanged since 1994.
- 3.14. Relevant sections of the standard contract are commented on in Part Two of this report and a copy of the whole contract is available on request.
- 3.15. Under the terms of the contract, Subpostmasters are remunerated based on a combination of fixed and variable amounts calculated according to the volume of business that they transact.
- 3.16. In terms of carrying out Post Office business, the Subpostmaster is an agent of Post Office. In legal terms, Post Office business is a transaction between the customer and Post Office Limited, with the Subpostmaster acting as Post Office's agent to complete the transaction.
- 3.17. As the Subpostmaster is not undertaking business in his own name, the cash and stock held at a branch is owned by Post Office and, in effect, the Subpostmaster acts as a steward of these assets. Subpostmasters are "*responsible for all losses caused through their own their negligence, carelessness or error*" (contract clause 12(12)). Subpostmasters are additionally "*required to make good any deficiency, of cash or stock, which may result from his assistant's actions*" (contract clause 15(2)).
- 3.18. If cash or stock is lost due to the fault of the Subpostmaster, the Subpostmaster is obliged to reimburse Post Office for that loss. The contract also provides that '*surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately*' (contract clause 12(14)). The treatment of losses and surpluses is dealt with more fully in section 9 of this report.
- 3.19. Errors by Subpostmasters can sometimes result in a Subpostmaster's contract being suspended and/or terminated, and/or action being taken to recover any related loss. An evaluation of the significance and seriousness of any such errors and losses, together with any associated action, is determined by Post Office usually after an Audit of the branch has been carried out by Post Office staff (see 4.32 onwards for more detail on the nature of a Post Office Audit).

- 3.20. Where Post Office suspects criminal wrongdoing by Subpostmasters or their staff (as well as staff at Crown offices) then it may exercise a general common law right (only available in England and Wales) to pursue a private prosecution. Alternatively it may refer the matter to national prosecution authorities, as is required in Scotland (the Procurator Fiscal) and Ireland. More serious cases such as armed robbery are referred directly to the police for action.
- 3.21. Typical criminal prosecutions are for theft or fraud, including false accounting (the latter where a Subpostmaster has declared transactions or stock and cash levels within the branch which the Subpostmaster knows are not true).
- 3.22. Post office states that prior to any private prosecution being pursued the circumstances will be investigated by the Post Office Security Team. This information is then reviewed by Post Office lawyers to determine whether the case is suitable for prosecution.
- 3.23. Once a prosecution is underway and potentially proceeding to trial the case is kept under review and should circumstances change Post Office can decide to stop the prosecution by "offering no evidence".
- 3.24. If a defendant is convicted, either by their own guilty plea, which could follow plea negotiations, or following a trial then the Court may order the person to pay Post Office's legal and investigation costs and also possibly compensation. In some cases Post Office may seek a Confiscation Order against a convicted defendant to obtain compensation for losses suffered.
- 3.25. In addition to criminal prosecutions Post Office may use the civil recovery process to recover sums claimed to be due from Subpostmasters. This process is not normally used where a Subpostmaster is in post as agreement can often be reached to deduct any amounts due from remuneration or by way of instalments. If the civil recovery process is pursued then this will typically follow three, escalating stages (i.e. direct communication, involvement of external lawyers and legal proceedings) during which further investigations of issues raised can be made, possibly resulting in an amendment of amounts claimed as being due.
- 3.26. Although retaining full contractual responsibility a Subpostmaster does not need to be personally involved in the running of a branch and may employ assistants to conduct branch business but is not required to notify Post Office of the arrangement. In some cases, a Subpostmaster may employ a Manager to run the branch and may have only minimal personal involvement in the provision of contractual services and day-to-day operations.
- 3.27. Each Subpostmaster typically owns (or leases from a third party landlord) the premises from which the branch is run. Other than Post Office setting minimum standards for the premises (in terms of legal ownership rights, physical security, etc.) it is the Subpostmaster's responsibility to provide and operate the branch premises.
- 3.28. The premises may often be part of an existing business such as a convenience store, typically referred to as the "retail business". Part of the premises may be used for transacting Post Office business and the Post Office equipment, cash and stock is generally kept away from the

retail business although the new "local model", which is being introduced as part of the Network Transformation Programme (see 3.33 and 3.34), is changing this position.

Branch types

- 3.29. Although the focus of this review relates principally to the operation of "Agency" branches, there are other types of branches within the Post Office network, which are staffed in a different manner. These include "Crown" branches and "Multiples" as described in 3.32.

Crown

- 3.30. There are around 350 Crown branches that are directly owned and run by Post Office. The staff at Crown branches are employees of Post Office Limited and each branch is run by an employed "branch manager" rather than a Subpostmaster.
- 3.31. Staff and managers of Crown branches are employees of Post Office and, unlike Subpostmasters, are not liable for losses as these are directly absorbed by Post Office. The operating procedures at Crown branches are however largely the same as those at Agency branches, including the operation of the Horizon system.

Multiples

- 3.32. Branches are sometimes located in premises operated by larger businesses, for example, Cooperative convenience stores or WH Smiths. These larger businesses tend to have multiple branches and are therefore called "Multiples". The operating procedures at Multiples are however also largely the same as those at Agency branches.

The Network Transformation Programme

- 3.33. The Network Transformation Programme (*NT Programme*) that is currently underway, is seeking to change the way that Post Office services are offered in branches with particular reference to the hours during which Post Office services and products can be provided.
- 3.34. Under the NT Programme, Agency branches are being transferred to either a "Main Branch" model in which a dedicated Post Office counter, physically separated from the Subpostmaster's own retail business, will be maintained, or a "Local Branch" model which fully integrates Post Office services within the retail business. This will allow Post Office services to be offered for longer hours than before, and may help to resolve some of the issues about hours of opening, end of day cut off procedures and the need to keep separate records where Post Office products are sold from the retail business, for example National Lottery products.

The National Federation of Subpostmasters (the NFSP)

- 3.35. The NFSP is an independent organisation representing Subpostmasters in their dealings with Post Office. Although not all Subpostmasters are members of the NFSP, it is the only organisation recognised by Post Office to negotiate rates of compensation for branch services on behalf of Subpostmasters nationwide. The NFSP works very closely with Post Office on a

range of issues including security, operational systems and technology and its 24-hour helpline provides advice on staff, contract and other issues, except for those relating to Horizon.

The Justice For Subpostmasters Alliance (the JFSA)

- 3.36. The JFSA has been instrumental in setting up the Complaint Review and Mediation Scheme and is represented in the Working Group. Its role is to ensure that the process addresses significant issues that have been raised by Applicants and moves them towards resolution.

4. Training, Support and Auditing

- 4.1. This section summarises the various training, advice and support functions provided to Subpostmasters and how these have evolved over the years. An overview of the Post Office audit and investigation function is also provided.

NBSC

- 4.2. The Network Business Support Centre (NBSC) was established in December 1999 to provide phone-based support to Subpostmasters and their staff. The hours during which this support is available has changed over time.
- 4.3. The NBSC's mission is primarily to provide assistance to Subpostmasters with problems arising from the processing of transactions carried out through Horizon, as well as how to deal with mistakes and issues arising out of the monthly branch trading statement (see 8.8 and 8.9).
- 4.4. New NBSC staff themselves receive a four-week training course and ongoing training on new products and services as they are introduced. Observations on the quality of support and product knowledge are included in Part Two of this report.
- 4.5. Post Office currently employs the equivalent of 70 people within the NBSC to receive calls, undertake second line support as required and carry out administrative roles, although the number of staff actually on duty at any one time to receive calls will vary. The NBSC receives on average approximately 1,700 calls a day. Potential peaks of call volumes to the NBSC have been "smoothed" by spreading branches across four trading groups, such that required monthly submissions from branches, with associated queries to the NBSC, do not all fall on the same Wednesday evening in each month.
- 4.6. The NBSC operates a two-tier escalation process so that if the NBSC advisor is unable to initially resolve the query/issue with the caller, the call is escalated to Tier 2 where more expert advice can be provided. If this still does not resolve the issue, the Branch Support Team will decide if further training or face to face branch support, which is outside of the NBSC's remit, is required.
- 4.7. We have been advised by Post Office that the performance of the NBSC staff is measured on the time advisors take to answer the phone, referred to as a "Grade of Service", and we are advised that the target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (i.e. where the caller hangs up before reaching an advisor). We are

also informed that additional measures, including surveys of "Subpostmaster Engagement Support Satisfaction", have recently been introduced.

- 4.8. We also understand that, in the event of a complaint about a specific issue, the NBSC's target is to resolve 95% of such complaints within 10 working days.
- 4.9. The use of these metrics to evaluate performance and any conclusions relating to the quality of advice and support received from the NBSC and the Horizon Service Desk is dealt with more fully in Part Two of this report.

Horizon Service Desk (HSD)

- 4.10. In addition to the NBSC, Subpostmasters can access Horizon On-Line Help and may contact the Horizon Service Desk (HSD), which is operated by Fujitsu.
- 4.11. The HSD deals with technical issues concerning Horizon and in the event that a technical issue cannot be resolved in a telephone call the HSD can arrange for an engineer to attend the branch to investigate the issue further.
- 4.12. A number of calls by Subpostmasters for support are apparently made to the wrong helpline and have to be redirected. We have been advised by Post Office that approximately six percent of calls received by HSD do not relate to technical issues and are transferred to NBSC, whereas approximately two percent of calls received by NBSC relate to technical issues and are redirected to HSD. We return to this issue and comment on possible reasons for this lack of understanding by Subpostmasters in Part Two of this report.

Field Support

- 4.13. Post Office has a dedicated Field Support Team responsible for induction and on-going transactional training for all Subpostmasters. Although the structure of the team has changed over the years, it currently consists of 227 Field Support Advisors (FSAs) who, together with 18 Field Team Leaders (FTLs), provide training and support to branches. In addition, they deal with Subpostmaster queries and carry out Audits - see below for further information and comment on Audits.
- 4.14. The Post Office network of branches and Subpostmasters is currently managed as three distinct groups. The first two of these groups, "The Top 2000" and "The Next 2000", are individually managed with an apparent focus on sales potential and performance, rather than providing operational support, although non-sales issues are addressed as required.
- 4.15. The third group are classed as "Branch Support". They are not pro-actively visited and do not have a Post Office employed manager assigned to them, resulting in their first point of contact and support being the NBSC. There are a number of escalation points depending on the nature of the issue and, ultimately, if the Subpostmaster experiences a problem that cannot be resolved over the telephone, a visit by a Field Support Advisor can be arranged.

4.16. As noted above, the Field Support Team is responsible for matters such as:

- Delivering classroom training to all new Subpostmasters and those who are going through the NT Programme.
- Training on site following a branch transfer.
- Requests from branches for additional or remedial training by FSAs. NB The Subpostmaster will normally receive the training and is then responsible for training his or her own staff.
- Undertaking Compliance and Financial Audits, which can also include providing further training to Subpostmasters on matters identified by such Audits. More than 3,000 Compliance and Financial Audits were undertaken in 2013 in addition to 2,873 Cash Count and Stock Check Audits.

4.17. In addition to the Field Support Team, there are others within Post Office who provide training and support, either on a face to face basis or remotely by telephone. These include Mail Development Managers (for branches which receive a high volume of mail) and the Branch Standards Team.

4.18. The Branch Standards Team was established in 2009 as a telephone-based intervention team. The team regularly contacts branches regarding a wide range of performance issues and errors, ensuring that the branch is aware of the correct operational procedures to follow.

4.19. There are a number of other teams across Post Office who may also come into contact with Subpostmasters (such as product specific teams, for example the National Lottery team) and who may, in some cases, recommend additional training. The Subpostmaster can also request further visits and training from the Field Support Team.

Training

4.20. Post Office will typically provide new Subpostmasters with training both prior to and after taking up their position in branch. Training can cover matters such as how to transact products and services; reconcile the day's transactions; "*remming*" in and out cash and stock (see below); and despatching cheques to processing centres.

4.21. Subpostmasters are also advised on how to balance the branch on a weekly basis, roll over into the next weekly balancing period and how to balance at the end of the monthly "*trading period*". As part of this training, Subpostmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise; how to accept or to challenge Transaction Corrections (see 7.30 onwards); how to make good any losses and gains; and how to raise issues about errors/discrepancies.

4.22. As set out below the nature of this training has evolved over time and a summary of the type of training that has been provided by Post Office in the past is set out below. In addition to on-going training related to operational processes, specific training was provided as part of the

introduction and implementation of the original Horizon system and then the migration to Horizon On Line.

2001 – 2002

- 4.23. Classroom training was offered to new Subpostmasters followed by ten or eleven days of onsite training and support. This would be followed by one day of follow-up support on how to carry out balancing at the end of the trading period, referred to as "balance support".

2003 – 2006

- 4.24. Between five and ten days of classroom training was offered to new Subpostmasters (the training being optional) and five to ten days of onsite training and support was then given depending on whether the classroom training was attended. This would be followed by a further day of follow-up balance support.

2007 – 2011

- 4.25. New Subpostmasters received five, eight or ten days of training on foundation, sales and other specialised modules. Six days of onsite training and support was provided, again followed by one day of follow-up balance support. In 2007, after a pilot scheme, follow-up telephone calls were introduced at intervals of one month and six months after a branch was taken over by a new Subpostmaster, with a one-day site visit taking place three months after the branch was taken over.
- 4.26. A Subpostmaster may choose not to attend training, or only attend part of a training session if, for example, he or she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training has been provided, it is the responsibility of the Subpostmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is for the Subpostmaster to ask for further training and/or assistance if it is required.
- 4.27. In 2012, as part of the wider steps being taken to "transform" the network, Post Office tailored its training to reflect the specific role being undertaken and rolled out further training depending on, for example, the experience of the Subpostmaster, the type of contract they would be operating and the number of employees they have.
- 4.28. The precise training given to a Subpostmaster therefore depends on a number of factors such as whether the Subpostmaster is completely new to the role, whether he/she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (i.e. Main or Local) and the types of products and services to be transacted.
- 4.29. Post Office's approach to structuring its relationships with Subpostmasters has evolved over time.
- 4.30. Branch classifications, roles and titles have changed with Retail Line Managers and Performance Advisors becoming Sales Managers and Area Performance Managers, who by

2008/9 were replaced by Commercial or Community Business Development Managers. The Business Development Manager role has itself now been replaced by an Area Sales Manager function.

- 4.31. Also, in 2008/9, the transactional training teams, previously functionally part of Post Office's HR department, were renamed as Network Field Support Advisors and the Financial Audit Team was merged with the Network Field Support Advisor team. As a result, Field Support Advisors now conduct both training and Audits in branches.

Auditing

- 4.32. In order to monitor and validate performance, Post Office will often conduct Audits of branches. This allows Post Office to assure and verify its assets, which are held in branches and to ensure compliance with regulatory and business requirements. The Post Office term "Audit" as referred to in this Report is mainly used to describe a cash and stock count carried out solely by Post Office, which may be supplemented by a Compliance Audit. In the event of a material shortfall arising during an Audit, it is common practice for any Compliance Audit to be deferred.

- 4.33. A Subpostmaster with concerns relating to the results of a Post Office Audit may only use the services of an independent auditor in order to verify the results if that auditor is given access to the branch's secure area and to Horizon as a registered user. However that person would only have access to the same data as that available to the Subpostmaster. Furthermore if the Subpostmaster had been suspended they would not then be able to register that person and give them access to Horizon or the branch's secure area.

- 4.34. Audits will normally take place:

- When a risk at a branch has been identified (e.g. the branch is continually suffering shortfalls);
- On the appointment of a new Subpostmaster;
- On the transfer of the branch to a new Subpostmaster (a further audit will often take place between six and nine months after the date of transfer); or
- Following a robbery or burglary (in support of loss mitigation).

- 4.35. As it is not possible for Post Office to visit and carry out an Audit at every branch each year, it also undertakes Audits whereby branches are selected at random to be audited. As well as the normal cash and stock verification and evaluation of adherence to Post Office's systems and practices this approach also assists with the risk profiling of branches.

- 4.36. The precise nature of the Audit will depend on the reason for the audit being undertaken, but will normally be restricted to a simple count of cash and stock. As such, it has only limited value in investigating and understanding underlying causes of errors and losses.

Within this context audits will usually include checks such as:

- For branches with paystations or lottery terminals, ensuring any overnight Transaction Acknowledgements (see below) have been properly accepted;
- Checking the cash declaration for the previous trading day;
- Counting and recording the amount of stock and the cheques held in the branch against the record maintained on Horizon; and
- Verifying any foreign currency held in branch.

4.37. As noted above this may sometimes be supplemented by a Compliance Audit to ensure that regulatory and business requirements are being followed. If compliance issues are identified this may then be followed up by the Branch Standards Team who will assist the Subpostmaster in rectifying the compliance issues. If an issue cannot be rectified by the Branch Standards Team, the Team can arrange for a Field Advisor to visit the branch and/or for further training to be provided.

4.38. The results of the Audit should normally be discussed with the Subpostmaster. In the event of a shortage being identified, an audit may result in the Subpostmaster being asked to "make good" the loss (i.e. to reimburse the loss to Post Office from the Subpostmaster's own funds). It may also result in a Subpostmaster receiving what is termed a "precautionary suspension", of both contract and remuneration. Further details of the treatment of shortages in other circumstances and how they arise and can be addressed are set out in section 9 of this report.

5. Horizon and associated equipment

5.1. As an understanding of the operation of the Horizon system is fundamental to an appreciation of many of the issues raised in the Complaint Review and Mediation scheme this section provides a broad description of how Horizon (both the original version as well as the amended version, known as "Horizon Online" or "HOL") is structured and operates, as well as giving information relating to other equipment used in Post Office branches, including Automated Teller Machines (ATMs).

5.2. Horizon is the electronic point of sale IT system used across all 11,500 Post Office branches to undertake transactions (from selling stamps to cash withdrawals and currency exchanges). Horizon supports approximately 30,000 terminals in branches, with 68,000 users having access to the system. In 1995, Post Office commissioned the development of the original system from the company now known as Fujitsu Services Limited and we are advised by Post Office that the system has been accredited in accordance with the Payment Card Industry Data Security Standard.

5.3. The whole, bespoke, system comprises the following elements:

- Computer hardware and communication equipment which is installed in each branch including touch screens, counter terminals and printers;
- Central Data Centres where transaction data from every branch is stored;

- Control and monitoring systems; and
 - Testing and training.
- 5.4. The following brief description reflects the way in which the current version of Horizon, known as "Horizon On line" or "HOL" operates. This was rolled out by Post Office in 2010 as part of its Horizon Next Generation (often referred to as "HNG-X") Programme to provide a simplified network based on the centralised processing of data. The main changes, compared to the earlier Horizon system, principally affected the way in which each terminal communicates transaction data to the central Post Office Data Centres and did not significantly impact on the actual use of the system in each branch.
- 5.5. Prior to the introduction of Horizon On Line, the data relating to each customer transaction was processed and stored by a designated master terminal in each branch before being transmitted, in batches, to a central Post Office Data Centre. In the event of power or equipment failure at a branch this could mean that transactions could be lost and would be subject to a recovery procedure. Under Horizon On Line, each branch terminal now communicates directly with a Post Office Data Centre on a transaction by transaction basis, which should reduce the potential for transactions to be lost. This is explained more fully in the following section on "Connectivity".
- 5.6. In order to function, Horizon must be "online" and each terminal connected to a Post Office Data Centre via a secure communication line with a back-up system, provided by Post Office, normally comprising a mobile phone connection. The Subpostmaster is responsible for the provision of and payment for the communication line itself.
- 5.7. Transactions in Horizon can only be physically entered by someone with a user ID and an associated password. Formal approval of a new user can only be carried out by Post Office but new users can be added to the system and allocated a User ID by a Subpostmaster or other person once that person has been set up with "manager access" by a Field Support Advisor. Once a User ID has been allocated then the required associated password can be set either by Post Office or by the Subpostmaster before being subsequently managed and changed by the approved user.
- 5.8. Individual transactions are conducted through a series of "conversations", each of which has a unique sequential serial number. Horizon records all data centrally in the Branch Database in the Post Office Data Centre and a copy of all transactions is also made to a separate audit server at Fujitsu where they are stored independently. Post Office has advised that a limited number of security personnel at Fujitsu have read-only access to this audit server. Post Office has additionally confirmed that it is their understanding that it is not, and never has been, possible for anyone to access Branch Data and amend live transactional or stock data without the knowledge of the Subpostmaster or their staff.
- 5.9. Financial data is stored by Fujitsu for a period of seven years, in line with Post Office data retention policies, after which it is destroyed. This time limit as well as the available financial

budget to process requests for information has, in some instances, posed serious barriers to subsequent investigations.

- 5.10. In order to ensure the integrity of the data held in and processed by Horizon the system operates a number of integrity checks. Examples of such checks include the following:
- Data passing from Horizon to third parties or to Post Office's "back office" are driven from one source to ensure that every recipient receives the same data.
 - Financial transactions such as banking withdrawals and card payments are automatically matched against the view of the transaction held by the customer's bank (i.e. if £100 has been withdrawn at a branch, this will be recorded in Horizon and will be subsequently matched against the bank's record that £100 has been withdrawn). If discrepancies arise they will be addressed following Post Office's procedures as described below.

Connectivity

- 5.11. Each Horizon terminal requires a direct connection, provided and paid for by the Subpostmaster, to a Post Office Data Centre in order to process transactions and this Post Office Data Centre in turn communicates with third parties (such as banks, the Royal Mail, DVLA and local authorities) in order to complete transactions.
- 5.12. The communications equipment in each branch needs to be connected to both a power supply and a communication channel in order to operate and process transactions. Connectivity issues can arise and may cause operating difficulties and errors. For example, when there is an interruption in the power supply or a breakdown in the communications line.
- 5.13. All Horizon transactions are conducted over a secure virtual private network between the terminal in the branch and the systems within Post Office Data Centres, which allows private data to be shared securely across the internet.
- 5.14. When serving a customer, transactions for some products can be completed within Horizon and immediately send information directly to Data Centres during the transaction, whereas some do not interact with the Data Centres until the customer transaction has been completed.
- 5.15. If there is an interruption to the power supply, there is a possibility that transactions may not have been fully and properly captured at the Data Centre. Horizon will normally check to determine whether there are any incomplete transactions following an interruption and if possible will try to remedy the lack of data.
- 5.16. The user will be prompted, once the system is reconnected and the user is logged back on, with a message containing instructions on how to recover the interrupted transaction. This message should confirm whether the customer's transaction was completed and whether any payment needs to be received or made.

- 5.17. The steps which need to be taken (as directed by Horizon) will depend on the type of transaction being processed during the power or equipment failure (see 5.14).
- 5.18. Similarly, if there is an interruption to the communication channel and/or a failure to automatically connect to the mobile phone backup device provided by Post Office during a customer transaction, Horizon is designed to prompt the user with on-screen messages explaining what to do and whether to cancel or retry the transaction.
- 5.19. If the Horizon messages are not clear or are not clearly displayed for sufficient time, and the user does not follow the recovery instructions correctly, this can result in a failure to process all or part of the customer's transaction and later result in a balancing error.
- 5.20. We have been advised that Fujitsu (see above) has a process by which it proactively monitors the primary and back-up connectivity between branches and Data Centres and, if alerted to a connectivity issue, will normally investigate and try to resolve the issue as soon as it is detected.
- 5.21. There is also a risk of hardware failure, but this should also be visible to Fujitsu and depending upon the nature of the fault may in some cases require branch equipment replacement (see Branch Error Analysis section below), referred to as "swap outs".

Associated equipment

- 5.22. Within a Post Office branch there may be various pieces of equipment used to conduct specific transactions. A description of the main items and the main operational requirements is set out below.

Automated Teller Machines (ATMs)

- 5.23. In 2005, Post Office awarded a contract to Bank of Ireland to provide ATMs in its branches. Bank of Ireland is a member of LINK (the UK network of ATM providers). It provides and installs the ATMs in Post Office branches, delivers training and offers technical and maintenance support. It is also responsible for the settlement process (between Post Office and each customer's bank account) and handles customer queries about ATM transactions.
- 5.24. In support of the operation of ATMs installed in branches, Post Office provides cash (notes which the ATM dispenses), while cash-loading, basic first line maintenance and associated accounting are handled within each branch.
- 5.25. On installation of an ATM, operational training is provided by Wincor, a sub-contractor to Bank of Ireland. When responsibility for a Post Office branch, which already has an ATM, transfers to a new Subpostmaster, ATM training is provided by Post Office as part of its standard training package.
- 5.26. Each branch is also provided with a Bank of Ireland ATM Operator Manual on how to use the ATM, which includes descriptions of how to load cash into the ATM, how to obtain the ATM

cash dispensed "totals receipts" and how to use the ATM's Cash Management menu. Each branch is also provided with "Accounting Instructions for Bank of Ireland ATMs" which explains how activity on an ATM should subsequently be recorded in Horizon by the Subpostmaster.

- 5.27. Each day, the Subpostmaster must print from the ATM a "totals receipt" that provides the number and value of withdrawal transactions and retracted cash transactions (where a customer forgets to take their cash and it retracts back into the ATM). The data from this receipt must be manually input into Horizon by the Subpostmaster or branch staff. In the rare circumstance of a retracted transaction, the retracted cash must be physically removed from the ATM by the Subpostmaster, counted, and the amount also recorded in Horizon so that the customer's account can be re-credited.
- 5.28. Once a week, the Subpostmaster should remove and count all the cash in the ATM and manually record this figure in Horizon (in addition to recording the totals shown on the ATM receipt as described in 5.27).
- 5.29. Part Two of this report comments in more detail on some of the operational aspects relating to ATMs.

PayStation

- 5.30. A PayStation is a standalone payment device that allows branch staff, on behalf of customers, to carry out certain bill payments, E-Top ups, as well as make electricity key and Quantum gas card top ups.
- 5.31. PayStation is predominantly used as a cash-only payment device although it does have the facility to accept debit card payments. The PayStation equipment in each branch consists of the main terminal along with a magnetic card reader and a barcode scanner, all of which are provided by a separate company, Igenico.
- 5.32. PayStation works as a simple operational interface and is activated by either a barcode scan or card swipe. The PayStation machine can also be operated manually. Once a transaction completes, receipts are printed for both the customer and the branch.
- 5.33. PayStation transactions usually require third party authorisation. For example, a mobile telephone top up request will go from the terminal to the mobile network provider, who will then confirm that the mobile telephone network is correct, that the customer's handset is a prepayment device and will then issue a unique code allowing the branch to credit the customer.
- 5.34. The Subpostmaster obtains from the PayStation terminal a daily record showing that day's transaction totals. Overnight, the PayStation terminal reports the day's transactions to the Post Office Data Centre which in turn sends a Transaction Acknowledgement (see 7.41 to 7.48) to the branch. When logging on the next day, the Subpostmaster checks the Transaction Acknowledgement against receipts and may then confirm the Transaction Acknowledgement,

after which the branch's cash position on Horizon is adjusted accordingly to reflect the value of the previous day's transactions.

Lottery

- 5.35. National Lottery products are provided and serviced by Camelot UK Lotteries Ltd. These transactions are processed through a separate on-line terminal in each branch. This stand alone Lottery or Camelot terminal is not directly connected to Horizon. The Lottery terminal can be located behind the Post Office counter but in most instances, it is located on the retail side of the branch.
- 5.36. National Lottery products are currently available in approximately 6,000 Post Office branches with two thirds of annual revenue coming from sales of Lottery tickets and one third from scratch cards.
- 5.37. The Lottery terminal is used for the sale of Lottery tickets and to activate scratch cards before they are sold whereas the paying out of Lottery prizes and the recording of scratch card sales is conducted on Horizon.
- 5.38. At the end of each trading day a daily summary of Lottery transactions for that day is printed from the Lottery terminal by the Subpostmaster and retained in the branch (so that it can, if necessary, be reconciled later against any Transaction Acknowledgements or discrepancies – see below). Overnight, Camelot will send a data file containing details of all Lottery transactions undertaken by the Lottery terminal to Post Office. This is used as follows:

Sales

- 5.39. The value of all online sales is sent to each branch overnight as a Transaction Acknowledgement. Horizon assumes that all Lottery ticket sales are conducted for cash (as this is the only method of payment permitted by Post Office for Lottery sales) and the Transaction Acknowledgement therefore increases the amount of cash recorded in the branch accounts in Horizon by the value of the sales conducted the previous day.
- 5.40. If the Lottery terminal is kept on the retail side of the business, and payment for Lottery products is processed through the retail till point, the Subpostmaster must physically transfer a corresponding amount of cash from the retail business to the Post Office branch's cash holdings.
- 5.41. If the Lottery terminal is operated as part of the Post Office counter, then the cash payments will already have been automatically recorded in Horizon.

Scratch card stock

- 5.42. Packs of scratch cards are sent to branches by Camelot. Before selling the scratch cards the branch must record the receipt of the scratch cards so that they can be tracked within the branch's stock holdings. This is done by 'activating' each pack of scratch cards on the Lottery terminal, which allocates a unique identification number to each scratch card and scratch card

pack. If a pack is not activated then Camelot may subsequently decline to pay out any prize on any winning scratch card within that pack.

- 5.43. The overnight data file contains details of the number of scratch cards activated at each branch. A Transaction Acknowledgment is then sent to each branch, which increases the amount of scratch cards recorded on Horizon as being in the branch's stockholdings.
- 5.44. Before February 2012, this process was manual. The Subpostmaster was required to activate scratch cards on the Lottery terminal and then manually record the new scratch cards on Horizon as an increase in branch stock.

Prizes

- 5.45. Where a customer claims a prize on a winning Lottery product, the ticket or scratch card must be scanned on the Lottery terminal to validate the prize. If the prize is less than £500, the value is paid out in cash by the retail side of the business. If the value is over £500 then the prize must be paid by a cheque generated by the Horizon terminal.
- 5.46. Where a Subpostmaster pays out prizes in cash from the retail side of the business, they will be recorded on the daily receipt generated by the Lottery terminal. The Subpostmaster then uses this information to manually enter the prize payouts in Horizon each day. By recording prize payouts, the cash position in Horizon is reduced and the surplus cash should be physically removed from the Post Office cash holding and transferred to the cash holding belonging to the retail side of the business.
- 5.47. Post Office reconciles the prize payouts recorded on Horizon (both cash and cheque) against the overnight data file from Camelot. Any discrepancies are corrected by way of a Transaction Correction (see 7.30 onwards).
- 5.48. Scratch cards can be sold directly through the Horizon terminal or are permitted to be sold from the retail side of the business and later recorded in Horizon. Sales conducted directly through Horizon will automatically make the necessary adjustments to the branch's recorded cash and stock holdings to reflect each sale.
- 5.49. If a Subpostmaster chooses to sell scratch cards from the retail business, a record of scratch card sales has to be maintained so that at the end of each day the volume and value of scratch card sales for that day can be manually input into Horizon. Horizon will assume that all the sales have been for cash and hence the Subpostmaster must also physically transfer the corresponding amount of cash from the retail business into the Post Office cash holdings.

6. Horizon Double Entry Accounting

- 6.1. As well as processing transactions, Horizon is also an electronic accounting system which tracks every transaction input to the system in a branch and ensures that relevant and correct double entry bookkeeping is applied. Those transactions include both those recording sales and

services to customers as well as deliveries of cash and stock in and out of the branch. Horizon enables staff in a branch to run reports referred to as "Balance Snapshots" as and when required, so that they can look up the recorded amount of cash and stock that is meant to be on hand.

- 6.2. The system's core principle is that of double-entry recording (i.e. entries generally have a corresponding and opposite entry so as to "balance" the account). For example, if a product is sold for cash this should in most cases result in a reduction in a branch's stock levels of that particular product line and a corresponding increase in the amount of cash recorded as being held at the branch.
- 6.3. A typical example of double entry would be the processing of a "personal banking" cash withdrawal by a customer. Horizon would record a credit (a reduction) in physical cash holdings in the branch due to money being paid to the customer. It should also record a debit in the payments section of the Balance Snapshot to reflect the debt now due to Post Office from the customer's bank.
- 6.4. The effect of this double entry system is that an input in one part of the branch's accounts will cause corresponding changes in other parts of the accounts.

Example:

A reduction in stock (e.g. postage stamps) held in a branch, following a sale, will automatically increase the amount of cash by the same value, as Horizon will assume that the stock has been sold.

So if, for example, stamps to the value of £10 were sold then this would be recorded in Horizon with the value of the stock of stamps reducing by £10 and the amount of cash recorded in Horizon automatically increasing by £10.

It will sometimes be necessary to manually adjust stock levels in Horizon (either up or down) to reflect the reality of the amounts physically on hand in the branch. If however such a reduction in, for example, the stock of stamps was incorrect by £10, then when the amount of physical cash actually held in the branch is compared to the amount of cash recorded in Horizon, (assuming that all other transactions are perfectly correct) the branch will be £10 short.

In this way, the error in accounting for stamps has migrated across the accounts to manifest itself as a cash shortfall.

However, the branch should also now be actually holding £10 more in stamps than the amount shown in Horizon. This creates a "surplus" of stamps physically in the branch.

In this scenario, there is therefore no net overall loss. If identified by the Subpostmaster then the error can be corrected by manually increasing the value of stamps recorded in Horizon by £10, which will then automatically decrease the amount of cash recorded in Horizon by £10 (as Horizon will assume that as there are now more stamps in the branch, those extra stamps

must not have been sold). This should bring in line (or "balance") the branch's accounts recorded in Horizon with the actual cash and stock holdings in the branch.

7. Branch Operating and Reporting Procedures

7.1. In simple terms, most individual customer transactions are processed as follows:

- A customer approaches the branch counter and requests certain transactions;
- The Subpostmaster selects the appropriate product or service on the Horizon terminal and, if necessary, inputs the value of the transaction (e.g. cash withdrawal from a bank account of £100);
- This process is repeated for each individual transaction requested by the customer (e.g. at the same time as the cash withdrawal, the customer purchases £10 of stamps);
- Horizon groups the individual transactions together in a "basket" of transactions and displays the net amount to be paid to the customer or which needs to be taken from the customer (e.g. in the above situation, the net cash due to the customer is £90);
- If payment is to be taken from the customer, the Subpostmaster will select the payment method (e.g. cash, cheque, debit card, etc.). This is referred to as the Method of Payment ("MOP");
- The Subpostmaster takes the payment from the customer or pays out cash to the customer as required. This final payment out or in (whether by cash, cheque or other method) records a final line in the transaction record that offsets the net value of the transactions and brings the basket total to zero. (e.g. if a customer buys £10 of stamps for cash the stamps would show as a negative £10 and the cash received would show as a positive £10, thereby bringing the basket total to zero);
- The Subpostmaster completes the transaction in Horizon, which closes that basket from that branch terminal and updates the branch's cash and stock records in Horizon (e.g. in the scenario above involving a stamp purchase and cash withdrawal, the branch's cash will have decreased by £90 and stamps also decreased by £10).

7.2. Whilst it might appear from the above scenario that any errors should be easy to identify, the source of errors during a process may not always be easy to determine. The potential impact and consequence of multiple transactions and associated issues is dealt with more extensively in Part Two of this report.

7.3. For cash or cheque only transactions carried out in a branch, Horizon delivers and records the entire sale or service to a customer, at the point of sale. For example, a bar-coded utility bill payment, paid in cash, is completed wholly in Horizon, with no related paperwork to process and no use of other terminals that are not connected to the Horizon system.

7.4. Some transactions, where the method of payment is a credit or debit card, require in addition to Horizon, use of the LiNK banking system accessed through a PINpad terminal.

7.5. Other transactions also require the use of other equipment. Examples include Lottery ticket sales and Scratch card Packs (see 5.35 onwards), which must be transacted on the separate

Lottery terminal. Horizon is then updated the next day by Transaction Acknowledgement as explained below.

- 7.6. There may also be various other steps (e.g. completing and sending various receipts and paperwork) that the Subpostmaster needs to take to complete the transaction, which are specific to the product in question, such as Motor Vehicle Licences.

Stock units

- 7.7. There is a capability within Horizon to create "stock units". These are in effect separate ring-fenced sets of sub-accounts within the branch's general account in Horizon. Although there are no mandatory business requirements for how many stock units a branch has to have, or how they are physically deployed, the creation of a stock unit by a Subpostmaster will cause Horizon to create a separate sub-set of accounts connected to that stock unit.
- 7.8. If cash and stock are transferred from the main branch stock to a stock unit, this cash and stock is then recorded in a separate set of accounts for that stock unit (and correspondingly removed from the general branch accounts).
- 7.9. When a member of branch staff is preparing to serve a customer, they will log onto Horizon with their User ID and password and link themselves to a specific stock unit.
- 7.10. Any transactions conducted will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.
- 7.11. One of the reasons for using multiple stock units is so that the branch can operate "individual" stock units, with each member of staff being allocated their own dedicated stock unit. The person allocated a stock unit normally has a separate drawer in which to store cash and stock associated with that stock unit so that it is physically separated from the cash and stock in other stock units or in the general branch holdings. When branches have balancing problems, it is normally recommended to adopt this approach so that mis-balances and mistakes can be linked to specific individuals.
- 7.12. Some branches operate "shared" stock units. In effect, this means that all the branch staff serve customers from one pool of cash and stock with all transactions then being recorded against one set of accounts. While seemingly simpler to operate, this does mean that discrepancies cannot be linked to individual User IDs.
- 7.13. Stock units can or must also be set up for individual product categories (e.g. Lottery, ATMs, etc.). This can help the Subpostmaster record all transactions for a particular product within a separate set of accounts so that any discrepancies can be more easily identified.

Reconciliation with third parties

- 7.14. A number of the products and services available at Post Office branches are provided by third parties (see *Appendix 2*). N.B. These third parties are often referred to by Post Office as "clients".
- 7.15. When such a product is transacted, details of this transaction are communicated from Horizon to the third party, sometimes immediately or sometimes at a later stage, by the central Post Office finance systems. Post Office is then liable to pay the third party the transaction value (or vice versa). An example of communication from Horizon to a third party with respect to a single transaction would be as follows:

Example:

At Post Office branches, a customer can deposit cash in or withdraw cash from his/her bank account with a number of major banks (i.e. Lloyds, Santander, HSBC etc.).

If a customer wishes to withdraw £100 of cash from an account, Horizon connects to the customer's banking system to confirm that the cash is available for withdrawal.

Once authorised, Horizon will advise the Subpostmaster to proceed with the transaction and to give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts in Horizon would then be automatically reduced by £100 to reflect the withdrawal. In this way, the branch's accounts are kept in balance with the amount of cash actually on hand.

Likewise, the customer's account at the customer's bank should be reduced by £100 to reflect the cash withdrawal from the Post Office branch.

Post Office then obtains its money back from the relevant partner bank by way of the settlement activities administered by the Post Office Finance Service Centre (FSC).

This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position in Horizon at the transacting branch will be increased by £100, the branch holding £100 more cash on hand and Post Office making a later payment to the customer's bank of £100.

Remittances

- 7.16. Branches send or receive cash and stock to and from Post Office Cash Depots. This movement of cash and stock is called a "Remittance" (and is often referred to as "Remming in" or "Remming out").
- 7.17. Branches may also take cheques as a method of payment from customers for some transactions. These cheques are treated as a "stock item" in Horizon and require "Remming out" (i.e. sending) to the cheque processing centre.

- 7.18. Post Office monitors the cash levels of each branch and classifies them as either "cash surplus" or "cash deficit" in terms of cash management.
- 7.19. Those branches that are classed as "cash surplus" normally have more customers who make deposits (i.e. by making cash deposits to bank accounts or by buying products with cash) than customers who require cash withdrawals.
- 7.20. The "cash surplus" branches do not require cash remittances to be sent to the branch from Post Office, as they will have a net inflow of cash from customers. These branches are however required to return surplus cash to their nominated Post Office Cash Depots via a Cash Vehicle in Transit (a secure means of transporting cash) in order to prevent the branch holding too much cash on site. Post Office Cash Depots are placed in geographical locations around the UK and each branch will be "tagged" to a particular depot.
- 7.21. Conversely "Cash deficit" branches are those where the money deposited by customers to the branch does not usually cover the amount that the branch has to pay out. These branches rely on Post Office Cash Depots to send cash to the branch in order to ensure that there is sufficient cash in the branch to meet its needs.
- 7.22. Post Office's Retail Cash Management team are responsible for monitoring the cash levels within the branch network to ensure that branches have enough cash to serve customers and to support effective working capital management for the network.
- 7.23. The decision on how much cash a branch needs to "Rem" in or out is determined by Post Office's Flexible Planning System, a software tool used by the Retail Cash Management Team. In essence, it compares the cash declaration figures that are entered into Horizon by Subpostmasters against the sales (receipts and payments) information. It also takes account of the average transactions occurring over the previous six weeks trading history to identify how much cash the branch should return or send back on their next scheduled cash delivery. This information is communicated to Subpostmasters via Horizon using a Flexible Planning Advice. The Subpostmaster has the option to amend the amount of cash that is planned to be returned by or sent to the branch by contacting the Retail Cash Management Team.
- 7.24. Where cash is to be "Remmed out" to a Post Office Cash Depot, the branch is responsible for placing the correct amount of cash into a remittance pouch, entering the amount that is being "Remmed out" into Horizon and then either handing the remittance pouch to the Cash in Transit Driver, or sending it back to Post Office via Royal Mail Special Delivery. When the "Rem" is processed the amount of cash recorded in the branch accounts in Horizon will decrease to reflect this.
- 7.25. Where cash is "Remmed in" to a branch, the cash remittance is sent by Post Office to the branch either via a Cash in Transit Driver or via Royal Mail Special Delivery. The branch is responsible for checking that the remittance pouch contains the amount of cash as stated on the remittance and then logging the receipt of cash into Horizon. This will increase the amount of cash recorded in the branch accounts in Horizon.

- 7.26. Royal Mail Special Delivery is only used, on a risk-assessed basis, for lower value remittances and, for example, where logistics constraints prohibit the use of the large, heavy armoured cash delivery vans.
- 7.27. Cheques have to be "Remmed out" daily by branches. This is to enable overnight processing and next day "clearing" of the cheques by the relevant bank. The only exception is cheques received on Friday and Saturday, which are sent together on the following Monday, as Saturday is not a "banking day".
- 7.28. There are dedicated Horizon processes, batch control vouchers and special envelopes which branches should use as part of standard end of day procedures. These utilise normal mail collections provided by Royal Mail employees.
- 7.29. Post Office contracts with a banking industry cheque processing organisation which validates, on behalf of Post Office, cheques received; highlights any anomalies to the Post Office FSC; submits the paper cheques to the drawee bank if required and provides data to the FSC about cheques both successfully processed and those that have "bounced" (unpaid cheques).

Transaction Corrections

- 7.30. The FSC (often referred to as "Chesterfield" by Subpostmasters because of its geographical location) is the Post Office's "behind the scenes" accounts processing centre. It provides daily services to third parties, branches, Multiples and customers.
- 7.31. The FSC is the originator of Transaction Corrections (TCs). These are sent overnight by the FSC to branches when errors are found which have either not been identified by the branch or have not been resolved locally. Even if the branch's accounts are in balance (i.e. there is no discrepancy between cash and stock on hand and the cash and stock levels in Horizon), it may be that the branch has processed transactions erroneously or in a way that causes a Post Office third party to refuse to reconcile the transaction with Post Office, thereby causing a discrepancy.
- 7.32. TCs can be issued to rectify accounting errors arising from a wide range of issues including errors or omissions in data entry such as mis-keying or not entering the transaction date. Subpostmasters are provided with a list of the different types of TC and reasons for their issuance.
- 7.33. Accepting a TC may result in a surplus or a shortage at the branch, or the correction of a previous surplus or shortage. Any residual surplus or shortage should be withdrawn or made good, as described in more detail in section 9.
- 7.34. Branches are required to accept all TCs notified to them, before completing their monthly Branch Trading Statement (see 8.8 to 8.10). This is a contractual requirement. The branch does not have to accept the TC immediately on receipt and can instead print the Transaction

Correction narrative and if possible take the necessary action within the days remaining until that trading period ends.

- 7.35. As explained below, Subpostmasters may also dispute the TC if they fail to understand the error made or consider that the TC does not properly apply to them. Hardcopy evidence of how the error has occurred is provided together with contact details to allow further information to be obtained.
- 7.36. TCs are often followed by enquiries to the branch, particularly if a large number of TCs are being sent to that branch.
- 7.37. In 2012/13, the most common reason for TCs being issued to branches was due to errors in "cash remittances from branch".

Example:

A branch records remitting out £10,000 in cash and sends the cash pouch to the cash centre. However, upon opening the cash pouch at the cash centre the pouch contains £10,010.

This creates a surplus at the cash centre and (assuming the branch otherwise balances) the branch will show a £10 shortfall during the next cash declaration.

The FSC will then raise a credit TC to the branch to correct this shortfall. When the branch formally accepts the TC, it will have the effect of reducing the reported Horizon cash balance by £10 in line with the reality of the cash on hand. The double entry to this is to increase the values recorded as "Remmed" out. The branch should then balance in respect of this specific incident.

- 7.38. The generation of a TC may be due to a discrepancy between Horizon and a third party's records and hence the time taken to identify errors and subsequently generate that TC can sometimes be outside of Post Office's direct control.

Example:

A customer deposits £100 into his/her bank account but, through a keying error, the branch only records a deposit of £10 in Horizon.

In this scenario, the records in Horizon and at the customer's bank will match as both will show a £10 deposit. The branch will have a £90 cash surplus, because the branch will have taken £100 from the customer, but only recorded the receipt of £10 in Horizon. The customer may then raise a complaint with Post Office directly or with his/her bank who will then contact Post Office.

Equally should the branch mistakenly record a deposit of £1,000 rather than £100 this would generate a shortfall of £900, which the Subpostmaster would have to pay to Post Office unless the customer detects the error and returns to notify the branch.

- 7.39. Processing a TC often results in an adjustment to the cash or stock position at the branch within the branch's accounts as TCs can debit or credit the branch's cash figure in Horizon. It is, however, important to note that this often (as the name implies) corrects the recording of a transaction such that the reported balance in Horizon will align with the physical cash handled in the transaction.

Example 1:

If a branch processes a bill payment of £100 as £10 in Horizon, the branch would show a cash surplus of £90. If the customer subsequently receives a bill reminder that full payment has not been received they will normally contact Post Office to resolve the issue. When the error has been identified, a debit TC is issued to the branch in the next trading period, because Post Office will need to pay an additional £90 to the customer's service provider. When the branch processes the debit TC this will increase the branch's cash position in Horizon, thereby creating a £90 shortfall against the cash on hand. This shortfall however sets off against the corresponding surplus that would have been made in the previous trading period.

Example 2:

A customer presents a Transcash deposit slip to make a bill payment but during the transaction it is established that an appropriate method of payment is not possible (i.e. the customer's debit card is declined) so the transaction is not recorded in Horizon and no cash changes hands.

If the branch incorrectly retains the deposit slip and does not follow the correct end of day procedure this could result in the Subpostmaster sending the slip to Santander (who administer Transcash bill payments taken through Post Office branches) who would then process the bill payment (i.e. money is paid from Post Office's account to the customer's service provider's account).

When Post Office later reconciles the bill payment against the Horizon records, there will be no matching payment record in Horizon and a TC will be sent to the branch. If the branch accepts the TC, this will alter the branch's cash position and the relevant cash should then be put in the till at that point. If the money is not put in the till, then there will be an equivalent shortage at the end of the trading period.

- 7.40. TCs can be disputed with the FSC. If the TC dispute is upheld then a compensating TC will be issued to the branch. If it is not upheld a written appeal can be made to the relationship manager in FSC who will review the case and make a final decision. Any payment required from the Subpostmaster as a result of the disputed TC will be suspended until the review is completed.

Transaction Acknowledgements

- 7.41. Some Post Office transactions, for example, Camelot/Lottery, PayStation, or Post & Go are not transacted through a Horizon terminal but instead use separate equipment (see section 5).

- 7.42. However, the cash taken for these transactions by the branch needs to be accounted for in Horizon as part of the overall branch cash and stock holdings. A Transaction Acknowledgement (TA) is therefore used to ensure that Horizon can be synchronised with the records on the third party equipment.
- 7.43. Transaction Acknowledgements (TAs) were introduced to automate the process of reconciling the data being sent directly from the separate machines and the amount of cash that should be processed through Horizon.
- 7.44. The transactions for certain Camelot products, PayStation and Post and Go are processed overnight and a report of the volume and number of transactions is sent by the third party equipment to Post Office. Post Office then sends the TA overnight to the branch confirming all transactions that took place on the third party equipment during the previous day. For example, National Lottery tickets (not scratch cards) are sold to customers via the National Lottery terminal.
- 7.45. The data from these sales goes straight to Camelot and the branch takes payment for the ticket and puts the cash into a separate drawer on the National Lottery terminal. The following day, the branch's Horizon terminal will be sent an electronic TA, which will appear as a message for the first person who logs onto Horizon asking for confirmation that it is correct. Once accepted the TA will make the required adjustment to the branch's accounts and inform the Subpostmaster how much cash should be transferred from the National Lottery till drawer to the Horizon terminal drawer.
- 7.46. Prior to TAs being launched in 2012, the Subpostmaster would have to obtain the relevant print outs from each machine and then input these figures into Horizon and manually reconcile any cash owed. The launch of TAs removed this manual process and hence also removed a source of error.
- 7.47. Even with the TA process, errors can occur if the correct amount of cash from the Lottery terminal is not transferred to Post Office, or if the user accidentally pays the cash amount into the wrong stock unit. Alternatively, if the Subpostmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.
- 7.48. The most important operational aspect of the TA process is that a TA has to be formally "accepted" in Horizon, normally at the start of daily trading.

8. Branch Reporting and Management

- 8.1. As part of a branch's standard operating procedure, Subpostmasters are required to produce and review a number of in-branch reports to ensure that the branch is functioning effectively and to allow Post Office to monitor cash and stock levels against its records. These include:

Daily Cash Declaration

- 8.2. Staff at each branch are required to count and declare the amount of cash on hand at the end of each day. The actual cash on hand is recorded in Horizon by the Subpostmaster or his/her assistants. If there is a difference then Horizon will show any "discrepancy" between the cash on hand and the amount of cash that should be in the branch in order for the branch to balance.
- 8.3. Post Office provides a set of tools that can assist Subpostmasters with tracing or identifying discrepancies. For example, transaction logs can be run which show the transactions that have taken place. These logs can be searched using parameters such as product type, user and time of the transaction. Event logs also provide information about user activity and a "Balance Snapshot" shows what Horizon believes to be the state of the branch's accounts at that point in time. The availability and general use of these tools to ascertain what transactions have taken place in branch and the amount that has been recorded against each transaction is commented on further in Part Two of this report.
- 8.4. Before Horizon Online was implemented, Horizon reports were available in branches for 42 days. These reports are now available in branch for 60 days.

Weekly Balance

- 8.5. Post Office recommends that, every week, a branch undertakes a full cash and stock count. The actual amounts of cash and stock on hand can then be compared to the figures recorded in Horizon. This should help the branch to identify and correct any discrepancies in a timely manner before they become combined with others and hence become more difficult to isolate.
- 8.6. In the event that a surplus or shortfall is found on a weekly balance, it can be declared and transferred into a suspense (or Discrepancy) account pending resolution by the month end. Amounts are typically held in suspense for a few days or weeks to allow the Subpostmaster some time to try to resolve the discrepancy. In the event that the discrepancy cannot be resolved by month end then, if the amount is less than £150, the Subpostmaster is expected to "resolve locally" i.e. make good from his/her own funds. If the amount is greater than £150 then it can be settled centrally as explained more fully in the following section.
- 8.7. The Daily Cash Declaration and the Weekly Balance are tools that Subpostmasters can use to manage their branches. Declaring a loss or surplus through either of these reports does not trigger any action by Post Office at that stage.

Monthly Trading Period Rollover

- 8.8. This is similar to the Weekly Balance but is mandatory every month. It requires any discrepancies (including those put into suspense during the month) to be resolved. This process is also called "rolling over" or the "end of trading period" process. At the end of the monthly process, the Subpostmaster is required to produce a Trial Balance, which should be retained in the branch and used to compare to the physical cash and stock on hand. After making adjustments to make good any losses or reduce any surpluses, the Subpostmaster then

has to print off and sign a "Branch Trading Statement". This statement confirms that the cash and stock shown in the accounts match the cash and stock actually held in the branch (with any discrepancy having been declared – see section 9).

- 8.9. Subpostmasters are contractually required to complete a monthly balance as described above. If a branch does not roll over into the next trading period when they are scheduled to do so, Post Office will instruct the branch to rectify the situation. Failure to roll over at the end of each trading period constitutes a Breach of Procedures as set out in the Subpostmaster's standard contract. In the event of a Subpostmaster failing to roll over he cannot open a new trading period. However, it is possible for the branch to continue to trade, albeit in the current trading period.
- 8.10. In order to address discrepancies or Transaction Corrections, the Subpostmaster should follow the processes set out below. This should allow an issue to be resolved or to be further investigated by contacting Post Office's Finance Service Centre (FSC). In the case of a further investigation, a disputed item remains suspended until the Post Office has investigated the matter.

Cut off routines

- 8.11. Mandatory daily and weekly "cut off routines" are in place to enable branches to validate transactions, which should ensure that the paper records match Horizon. This also assists in the identification of errors before month end. Examples include, validating the physical cheques held in branch against Horizon to send to clearing or the banking summaries to send to Santander. Validation of physical records against Horizon's records can also help detect errors or omissions but only if the nature of the error is understood.

9. Resolving surpluses or shortfalls of cash or stock

- 9.1 At the end of a monthly trading period the Subpostmaster is required, subject to one exception, to certify that the branch has the cash and stock which Horizon states should be present.
- 9.2 The one exception relates to a shortage. If the Subpostmaster has less cash or stock than Horizon states then, if the shortage is not made good there and then, the two options of settling centrally as set out in (9.5) below are available.
- 9.3 It follows, that if the Subpostmaster has more cash and stock than Horizon states, then the Subpostmaster does not owe that surplus to Post Office.
- 9.4 For stock discrepancies, the Subpostmaster should process a sale, a sales reversal or a manual adjustment to correct the volume of stock shown in Horizon, to make sure that it balances to the volume of stock actually held in the branch.
- 9.5 If, following the monthly rollover, there is a shortage of cash (when the cash on hand is less than the amount of cash recorded in Horizon), then Horizon presents the Subpostmaster with three options to remedy the deficiency:

- **Make good** – the Subpostmaster can elect to put cash or a cheque into the branch from his/her personal funds to make up the shortage.
- **Settle centrally and pay** – the shortage is transferred to the Subpostmaster's personal account with Post Office. The cash figure in Horizon is reduced to bring it in line with the actual cash on hand at the branch. At this point, the Subpostmaster owes the cash loss to Post Office as a debt. This debt can be repaid by either (a) a direct payment from the Subpostmaster to Post Office or (b) by deductions from the Subpostmaster's future remuneration although in this latter option the Subpostmaster may not commit more than 25% of his/her net pay to such deductions.
- **Settle centrally and dispute the shortage** - if the Subpostmaster believes that the shortage was not his fault or could be resolved through other means, then the debt will be suspended to allow time for the shortage to be investigated and remedied. The Subpostmaster can dispute a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the Finance Service Centre at Post Office to have the debt suspended pending an investigation. The extent to which Subpostmasters are aware of and make use of this third option is explored more fully in Part Two of this report.

Part Two of this report will also make reference to situations where certain Subpostmasters claim to have been under pressure to declare a balance of cash and stock in branch, which did not reflect reality.

- 9.6 If the cash on hand in a branch is more than the amount that Horizon shows should be present then the actual cash needs to be adjusted in order to balance the books. The Subpostmaster will reconcile the amount of cash on hand at that moment in the Trial Balance process described in 8.8 above and then remove sufficient cash to bring the branch back into balance (see comments in 7.30 onwards describing the Transaction Correction process). This results in Subpostmasters being entitled to withdraw cash to remove surpluses, without the need to report that to Post Office, other than through the Trial Balance.
- 9.7 It is common practice for Subpostmasters to keep surplus cash in a separate location (such as the retail business safe) until their investigation into the gain is completed and/or a Transaction Correction is received. In the event that a declared surplus is eventually determined to be a genuine one then the Subpostmaster is entitled, under the terms of the standard Subpostmaster's contract, to retain it.
- 9.8 If however a Post Office investigation does not fully eliminate carelessness, negligence or error then the Subpostmaster is liable for the loss and is required to personally settle any amounts due. In order for the Subpostmaster to challenge this liability, the burden is on the Subpostmaster to determine the source of the error and deficiency.

10. Branch Error Analysis

- 10.1. This section describes how some errors might occur and what facilities are available to a Subpostmaster to identify or correct those errors.
- 10.2. There are a variety of reasons why a branch may encounter a discrepancy between the amount of cash and stock on hand and the amount of cash and stock recorded in Horizon – this situation is commonly referred to as a "balancing discrepancy".
- 10.3. There are number of situations in which a balancing discrepancy might occur. It should be noted that some of the situations described may cause a gain for a Subpostmaster, or only cause a temporary loss and may cause the real reason for the losses to be hidden:
- If an error causes a surplus of cash in the branch, this may offset other losses caused by other errors. In that scenario, the other losses or errors may not be revealed, as overall, the branch's accounts may balance, show a surplus, or a smaller loss;
 - If a surplus error occurs in one month but is later discovered and corrected via a TC in a subsequent month, and the accounts for that month may show a loss even though all transactions in that later period have been processed correctly.

Example:

A branch suffers two errors, one creating a £100 gain and another causing a £100 loss. At the end of the trading period, the branch's accounts will balance as the two errors cancel each other out for balancing purposes.

If in the next trading period the cause of the surplus error (i.e. the gain of £100) is discovered, a Transaction Correction (TC) will be sent to the branch which increases the amount of cash recorded in the branch accounts. If all the remaining transactions throughout the rest of that trading period are conducted correctly the branch will still show a loss at the end of the later trading period due to the TC. Therefore, whilst the loss of the branch shows in the current trading period, the error which caused the loss occurred in the previous trading period.

- 10.4. A number of the errors as described below may only be visible to those working in the branch. When discrepancies occur, Post Office normally seeks to find possible explanations other than those below. If no other source of the discrepancy can be found and system error can be eliminated or discounted then, by a process of elimination, the discrepancy will have most likely occurred through an error in the branch.

Mis-key

- 10.5. A mis-key is the term used when staff enter the wrong value of a transaction into Horizon compared to the actual amount of the transaction.

Example:

A personal banking customer wishes to deposit £1000 into his/her account and the person serving the customer mistakenly enters £10,000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.

In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank which in turn will contact its customer. The customer will then be asked to confirm the amount deposited at the branch. However, the only receipt printed from Horizon will have been given to the customer and will show a deposit of £10,000 and, therefore, the rectification process relies largely on the actions of the customer and their bank.

- 10.6. As a result, an easy to make keying error, by branch personnel, could result in a customer enjoying a windfall benefit, with the Subpostmaster having to make good this discrepancy.

Mixing retail and Post Office business

- 10.7. Generally, a branch will maintain a physical separation between retail and Post Office cash. Mixing these two sets of cash can lead to Post Office cash being lost to the retail business and vice versa as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

Errors in cash handling

- 10.8. At the end of a customer transaction, payment normally needs to be made to or received from the customer. Even if the transaction is correctly recorded in Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to, or receiving it from, the customer.

Example:

A business-banking customer may present documentation to deposit £1000 into his/her business banking account.

If, at the end of the transaction, £1000 in cash is given to the customer instead of taking £1000 in cash from the customer there will be a shortage to the branch of £2000, made up of the deposit entry of £1000 being correctly input into Horizon (Horizon then expects to receive £1000) and the settlement out to cash of a further £1000 which will reduce the cash in branch.

- 10.9. In many cases the honesty of the finder and the ability to identify the money as coming from the branch is required if the money is to be returned to the branch.

Miscounting cash on hand

- 10.10. Cash must be physically counted at the end of each day and when rolling over at the end of a trading period. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether.

- 10.11. If cash is temporarily mislaid one day and found the next, it can lead to related shortages and surpluses on different days or in different trading periods. In the midst of many other activities, branches may not associate the two and may dispute part or all of the outcomes.
- 10.12. Another instance of where this can happen is when a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. A few Post Office products, such as National Lottery scratch cards, are permitted to be sold from the retail business. However, it is the Subpostmaster's responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.
- 10.13. Cash remittance pouches that have been prepared for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure (as it is deemed to have been remitted out of the branch even if the pouch has not yet been physically collected) and, therefore, the branch could be declaring a gain or inadvertently hiding a loss.

Cash remittance errors

- 10.14. If there is mistake made between the amount that is "Remmed" in or out and what is received from, or sent to, the Post Office Cash Centre, then this will lead to a branch discrepancy. When a pouch is received from a branch, the handling clerk at the Cash Centre opens the seal and empties the contents onto their workstation, which is monitored by CCTV. This is the same for pouches that are made up in the Cash Centres and sent to branches.

Example:

If a branch has bagged up £25,000 to send to the Cash Centre but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000.

If the cash has left the branch then the mistake cannot be rectified by the branch. The cash will be counted at the Cash Centre and a Transaction Correction will be sent to the branch to rectify the branch account.

Stock remittances

- 10.15. Branches receive their stock (postage stamps, Motor Vehicle Licences, etc.) from Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking at the earliest possible opportunity that the amount of stock received exactly matches the advice note delivered with the order and "remming" the stock onto the correct lines in Horizon.
- 10.16. As the delivery can often occur during branch opening hours it may be impractical to carry out a full check immediately as to do so in an effective manner could require the branch to be closed for a period. In these circumstances an immediate cash count would not be carried out on delivery of the cash unless it was required immediately for operational purposes.

Cheque handling

- 10.17. Branches can accept cheques as payment for certain products and services. Customers can also cash personal cheques up to a certain amount. Branches may also accept deposits for certain partner banks.
- 10.18. There are set procedures that must be followed in branch at the end of each day to ensure that the cheques are handled correctly, the customer's bank account is debited accordingly and Post Office can settle the client accounts. Typically there are two scenarios which might cause a loss:
- A cheque has been accepted for a non-cheque acceptable product (i.e. foreign exchange sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. This is because the Subpostmaster may have taken the cheque for payment from the customer, but because the product did not permit cheque payment, Horizon would not present this option on the counter terminal. The Subpostmaster would therefore have to erroneously select another payment option (i.e. cash).
 - The method of payment has not been correctly recorded in Horizon.

Example:

If a cheque is presented by a customer to pay for a transaction, but the transaction is accidentally settled as a cash transaction, the value of cheques held in the branch recorded by Horizon will not match the value of the actual cheques held in the branch.

At the end of each day a cheque listing is printed from Horizon, which should be checked against the cheques held in branch and if it does not match, Horizon should be corrected before remitting the cheques to Post Office. After "Remming out" the cheques, a further cheque listing should then be printed to confirm that no cheques are held in branch.

If a branch has not ensured that the cheques in branch match Horizon's record before "Remming out" those cheques, then the cash in the branch will show a shortfall and the amount that is received at the cheque processing centre will not match the amount that has been entered into Horizon. This is because Horizon calculates how much cash should be in a branch based on the "cash" settlement option that is available at the end of each transaction. Therefore, if the "cash" option has been selected instead of the "cheque" option, Horizon will expect there to be more cash in the branch than is actually held.

This may generate a Transaction Correction to correct the account unless the branch reverses the transaction and records it accurately as a cheque transaction.

- 10.19. Branches should follow a process to ensure that the amount of cheques recorded as held in branch balances to zero. This process is called "cutting off". If the cheques are not "cut off" at

the end of the day the cheque listing on the following end of day procedure will not agree with the actual value of cheques held in branch.

- 10.20. This is corrected in the same way by amending the "cheque on hand" figure to show the correct value of the actual cheques held in branch. The value of the cheques in branch is then sent out before a further cheque listing to confirm a zero entry is printed.
- 10.21. It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, Post Office will normally absorb this loss and not pass it on to the Subpostmaster. In the majority of cases, Post Office either mitigates the loss caused by a lost cheque by obtaining a replacement cheque from the customer or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

Accidental loss

- 10.22. Other losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops taken by a customer without branch knowledge.

Transacting from the wrong stock unit

- 10.23. As noted in 7.7 to 7.13 above there is a capability within Horizon to create "stock units", which are, in effect, "virtual tills". A member of staff within a branch, when serving a customer, will log onto Horizon with their own User ID and password and can tag themselves to a stock unit containing cash and stock (either their own individual stock unit or a shared stock unit).
- 10.24. If a user accidentally links or tags to the wrong stock unit and serves a customer or transfers cash or stock, then the accounts will record the transactions against one stock unit but the physical cash or stock will move in or out of a drawer allocated to a different stock unit. Any transactions carried out will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.
- 10.25. If spotted, then this can be corrected by either reversing the transactions and allocating them to the correct stock unit, or by calculating the cash value of the transactions and transferring the total amount to the correct stock unit.
- 10.26. In theory, there should be no net overall discrepancy to the branch, as any losses in one stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear as if an error has occurred in one of the stock units and can cause confusion, obscuring other errors.

Outstanding transfers between stock units

- 10.27. Where a branch has more than one stock unit in use (see above) there may be times when cash and/or stock is transferred from one unit to another. For example if stock unit A is

running short of cash, stock unit B may transfer money to allow customer service to continue smoothly.

- 10.28. The user in stock unit B should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit A) and transfer the cash out. A receipt is printed which is kept in stock unit B to confirm this.
- 10.29. The user in stock unit A then needs to accept the cash in Horizon and print their own receipt to confirm this. A report called "Transfer Reconciliation" can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals sum to zero.
- 10.30. Failure to do this can cause cash or stock to be missed from cash and stock counts.

Product specific errors

- 10.31. Failure to follow the correct process for accounting for certain products can also cause errors. A good example is the accounting process for Motor Vehicle Licence (MVL) discs (commonly referred to as tax discs).
- 10.32. Branches will receive MVL discs from Post Office, which they have to "Rem" into their stock using Horizon. When the discs have passed the time where they can be put onto a vehicle, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed.
- 10.33. When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it to Post Office, Horizon will still record the disc as being in the branch even though it has been destroyed.
- 10.34. When the branch carries out the end of the trading period rollover process and a full count of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon.
- 10.35. Whilst this does not create a cash shortage, branches are held liable for missing discs at a charge of £41.50 per disc, because Post Office is accountable to the DVLA for the missing discs.
- 10.36. Failure to follow the correct reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed in Horizon, but if no payment is actually taken, the branch has to reverse the transaction and the disc. If they only reverse the disc out of the system then the stock of discs will balance, but the branch cash will not balance.

Theft

- 10.37. Theft by branch staff can and has occurred involving staff taking cash or stock directly from safes or drawers or colluding with a customer to generate a gain for the customer and an offsetting loss for the branch (this being ultimately borne by the Subpostmaster).

10.38. These shortages would be identified when a physical cash count and declaration is made, but it is not possible for Post Office to identify when the actual theft occurred. Unless the person is caught in the act of taking the cash, it is probable that the loss would only be discovered at the end of day cash declaration or at the time of completing the Branch Trading Statement.

10.39. The branch staff may then be unaware of how the loss had occurred. Some thefts may also be accompanied by an effort to disguise the theft (i.e. creating false transactions or gains). Whilst it may be possible to identify the User ID that was used to process these transactions it may be difficult or impossible to prove exactly when the theft occurred.

Example:

Cash or stock may be falsely declared to give the impression that the cash or stock is in the branch when in fact it has been stolen.

"Phantom" cash remittance pouches could be created to mask an amount of cash that is missing but the pouch is reversed before the dispatch. For example, Horizon does not take into account the amount of cash in pouches when it calculates the amount of cash that it is expecting to be declared. So, if cash is missing before the cash declaration is made, the branch could make up a cash remittance pouch to cover the discrepancy, so in effect the branch will not show a discrepancy in Horizon. Once the cash is declared, the branch will reverse the remittance pouch from the system.

Hardware failure

10.40. In cases of hardware failure requiring the replacement of branch equipment there is a possibility that not all data will have been successfully replicated before the failure of the old hardware with a consequent possible loss of data. There are however checks and procedures available, that if properly followed, should allow such transactions to be identified.

Conclusion

10.41. We have described a number of the operational functions and facilities used by Subpostmasters, supported by examples of transactions and their processing by Horizon. We have also highlighted some areas where the potential for confusion and error may occur.

10.42. Many of these issues are described in more detail in Part Two of this report where various issues are more fully explored

Appendix 1

Abbreviation	Terms	Meaning
ABS	Anti Bandit Screen	The glass fronted screen found in many branches. It is not bullet proof but uses safety glass and is intended as a deterrent for criminal activity.
ACC	Authorised Collector's Card	Credit-card sized identification card that is presented by the Cash in Transit Driver who collects/delivers cash and stock either to or from a branch
ADSL	Asynchronous Digital Subscriber Line	This is the dedicated broadband line that the Horizon system uses to send and receive data to our servers which links the Horizon system to our data and client systems
AEI	Application Enrolment Identification	Transaction available in selected branches where specialist equipment records personal information such as fingerprints, photos and signatures for certain purposes, such as extension/application of immigration visas and DVLA driving licence renewals
Airmail Labels		The blue airmail sticker that needs to be stuck to all airmail mails items posted in branch
Airsure		A priority overseas mail service which provides an electronic confirmation on delivery and provides extra compensation cover for contents
Amex	American Express	AmEx" or "Amex", is a diversified global financial services company. They provide our traveller's cheques and cards are also accepted as a payment method for certain transactions
AML	Anti Money Laundering	We have a number of processes in place to prevent our branches from being used to launder money which has been gained through illegitimate means
ANC	Agency Network Change	This is a Post Office Team who make initial and ongoing engagement with our Agency Network branches for all relocations, refurbishments and equipment moves.
Annual Policy		A 12 Month Travel Insurance Policy
APS	Automated Payment Service	An APS transaction is one where a customer presents a bill which has a barcode that can be scanned or a card that can be swiped, where the information is sent directly from the Horizon system to the client's data systems.
ARC	Alarm Receiving Centre	Centre managed by Romec F&S and monitoring branches installed with Post Office Ltd alarms.
ARQ	Audit Retrieval Query	A request for Horizon archived information.
ASM	Area Sales Manager	Manager of a set of Post Office branches that focus solely on their sales performance and initiatives
ATM	Automated Teller Machine	A computerized machine that dispenses cash to Banking customers, often referred to as 'Cashpoint' or 'Hole in the Wall'
Back Office		A location within a branch where the balancing takes place. Also an area on the Horizon Online System where accounting processes are handled.
Balance Report		A paper report processed from Horizon computer system that shows a summary of transactions done in a set timeframe for a particular stock unit along with a summary of declared remaining cash, value stock (stamps, Postal orders etc) This is then signed by the Agent as being correct and on hand.
Balance Snapshot		A paper report processed from Horizon computer system that shows a summary of transactions done in a set timeframe for a particular stock unit along with a summary of system derived remaining cash, value stock (stamps, Postal orders etc) based on sales and transactions completed at that time. Although this shows accurate transaction volumes and values, this will show what the system believes should be on hand for cash and value stock, based on sales put through the Horizon system
Barcode Reader		An electronic hand held device that is used to scan barcodes for processing transactions
BAU	Business as Usual	Normal way of working.
BDM'S	Business Development Managers	Previous term for a Post Office manger who managed a group of Post Office branches/areas. Part of Network & Sales Directorate.

Appendix 1

BFPO	British Forces Post Offices	A postal service which allows customers to post items to Forces personnel around the world, sometimes free of charge
BFPO Number		British Forces Post Office Numbers are for a given Forces base/ location where they are identified by a number rather than an address for security reasons
BOP	Back Office Printer	An A4 size printer, used for printing off selected reports, i.e. Branch Trading Statement.
BP	Balance Period	A period of time between a branch declared balance. Normally completed on a Wednesday and covers the last seven days but can be a smaller or larger timeframe. Can have multiple Balance period within a Trading Period
Branch Code		An individual code which identifies a Post Office branch. Formerly known as a FAD Code (Financial Accounts Division)
Branch Focus		A weekly publication which is sent to branches. This shows updates to transactions and products/processes as a reference material.
Branch Standards		The expected criteria that a branch should meet. Could be transactional or compliance based.
BTS	Branch Trading Statement	An A4 paper report which is signed as a declaration of the month's trading outcome. This summarises transactions performed and lists the cash and Stock on hand at the end of a Post Office Trading Period. This remains in branch for reference and inspection as appropriate.
BM	Branch Manager	A crown branch term that relates to the person with responsibility for the branch.
Budget Card		A Post Office branded card that can be pre loaded with cash to pay towards Post Office products, mainly bill payments. Often used by people with low income who use this as a way of maintaining household budgets.
Branch Code		A seven digit numerical code that identifies each branch in the network.
Bulk Cash		Cash in branch which is secured in the safe until required
Bulk Stamps		Postage Stamps which are secured in the safe until required
Bulk Stock		Post Office stock (Car tax discs, Postal Orders, other items of value) which is secured in the safe until required
Bureau De Change		A counter where you can exchange foreign money
C&IRT		Contact and Issue Resolution Team
CA	Contracts Advisor	An individual who looks after a number of branches and deals with interviewing potential new Operators, enforcing contractual standards/procedures in a branch and having ownership of suspending/terminating a branch's contract to operate a Post Office
CAA	Civil Aviation Authority	The CAA enforces international regulations which govern the transport of dangerous goods by road, sea and air.
CAM	Crown Area Manager	Direct manager of a set of Crown Post Office branches that focus solely on their sales performance and initiatives
Cash Dec	Cash Declaration	The process of making a formal and complete statement of the physical Cash holdings within the till using the Horizon terminal. This is done every night and allows for cash usage to be monitored
Cash Management		The process of ensuring Post Office Branches have the correct levels of cash to carry out business procedures
Cash on Hand		Cash that is physically held in individual stock units
CC	Cash centre	A centre that manages and distributes value items for the Post Office network;
CCU	Customer Care Unit	This is the team responsible for responding to or seeking further information to resolve customer complaints or enquiries.
CFU	Cash Finding Unit	Generic term for a range of units used at all screenless working positions.
Cheques		A written order directing a bank to pay money for a product/service
Chesterfield		Term used for the P&BA team based in Chesterfield. Now known as the Finance Service Centre
CIT or CVIT	Cash in transit or Cash & Value in transit	Post Office Ltd business involving delivery and pick-up of cash to/from branches and other businesses.

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CN22	Customs Declaration Label	A customs label the customer completes which details the contents of a parcel. This is affixed onto overseas mail for goods up to the value of £270.00
CN23	Customs Declaration Label	A customs label the customer completes which details the contents of a parcel. This is affixed onto overseas mail, the contents of which are valued in excess of £270.00
CoA	Conditions of Appointment	These are agreed between Agents and Operators with Post Office Ltd prior to appointment and form part of the Contract for Services or Agreement signed. Examples of CoAs include - The official opening hours. Details of new signage required, Etc.
Coin Hopper		A container where the coins that are immediately available for pay outs are held
Coin Sets		A selection of Coins produced from the Royal Mint for commemorative occasion which are available to buy from selected branches
Combi		A counter in a branch that enables customers to be served both retail products & post office transactions at the same time.
Comms	Communications	
Compensation		A form of remuneration for loss or damaged goods
Complex Basket		Where different settlement rules apply for one or more items in a session (e.g. one item can be settled with a debit card but another item can only be settled by cash).
Compliance		A set of rules and regulatory controls that affect the way we sell products and services in our branches.
Consignment		Where more than one mail items are sent and addressed to the same destination. They are charged on a total weight basis, rather than on individual pricing
COP	Certificate of Posting	A customer receipt that proves that a mail item has been accepted over the Post Office counter. Can be hand written or computer generated. This does not guarantee delivery, merely proof that the clerk has accepted the item at a place and date.
Counter Printer		A printer that supplies customer receipts for goods and services using a printer roll, rather than A4 paper.
CPT	Cash Packet Transfer	
CPU	Central Processing Unit	The CPU is the brains of the computer where most calculations take place.
Credence		Post Office Management Information Reporting System.
Credit Card		A plastic card issued by a banks for the purchase of goods or services on credit.
Cross Sell		A sales technique used to inform customers of related transactions. ie. If a customer asks for foreign currency, we would introduce Travel insurance as a product
Crown Office		Part of the Network of circa 300 branches that Post Office Ltd own and have direct employees running the branch.
CSO	Community Sub Office	A branch that is run by an independent operator, generally only open for restricted hours.
Customer Experience		The validation that changes to direct & indirect customer material and/or communication to not cause a negative impact.
Cut Off Times		A locally accepted times for last acceptance of mails and doing daily paperwork to allow for summaries to be produced. Items taken after this point would be sent/processed the following working day
D1		Driving Licence Application Form
Date Stamp		A metal stamp that gives an impression on a receipt/bill which provides verification of a transaction showing the date and location of acceptance
DDA	Disability Discrimination Act	An Act of the UK Parliament which has now been repealed and replaced by the Equality Act 2010
Debit Card		A plastic card issued by a banks for the purchase of goods or services.
Definitive Stamps		A postage stamp that is part of a regular issue of a country's stamps. These generally depict the Queen's Head or the individual country emblem and may or may not show a value.

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DG	Dangerous Goods	Items of mail that are considered a hazard/risk when in transit
DPA	Data Protection Act	A United Kingdom Act of Parliament which defines UK law on the processing of data on identifiable living people
DVLA	Driver and Vehicle Licensing Agency	Government body that deals with driving licences and motor vehicle licences
DWP	Department of Work & Pensions	Government body that deals with benefits payments
EA	Equality Act	An Act of the UK Parliament that gives clear guidance on discrimination and how to treat all individuals fairly
EHIC	European Health Insurance Card	A plastic card issued by the NHS which allows for free health care at certain European countries.
End of Day procedure		Collating the day's transactions and despatching necessary paperwork
ETOL	Electronic Time Overlock	
E-Top Up Card		A card swiped through the Horizon system that credits a mobile phone with airtime
E-Voucher		A receipt generated from Horizon to credit a mobile phone with airtime
FAA	Financial Assurance Audit	
Fast Drop		Fast Drop is a new service available with Royal Mail Online Postage that helps customers time at the Post Office®. The service is free and is available with a range of postal services, which can be dropped off in selected branches
FCA	Financial Conduct Authority	A body that regulates firms that undertake financial services activity in the UK.
FCA	Field Change Advisor	A field based Post Office employee who assists post office agents with the process of transforming or relocating their branch.
FDE	First Day Envelopes	Often bought by Philatelists (stamp collectors) An envelope that customers can buy to affix special issue stamps on and get hand stamped on the first day of the stamp issue.
Final Balance		The process of going through and declaring all cash plus stock in hand, as per Balance Report, and committing to the figures. This will then produce a 'Final' balance report which the Operator should sign as a true reflection of the items in branch
FONCH	Foreign overnight cash declaration	Amount of foreign currency declared as being held in branch overnight
Foreign Currency		Currency from another country
Fortress		A secure counter serving position within a post office
FPO	Franchise Post Office	A post office with franchise contract. Usually operated from ex Crown Branches where the operator is a 'High Street' chain. i.e. WH Smiths. These are run using their own staff.
FS	Fujitsu Services	The company who develops and maintains the Horizon equipment
FSA	Financial Services Authority	Regulator of all providers of financial services in the UK. The FSA has now become two separate regulatory authorities, the Financial Conduct Authority and the Prudential Regulation Authority
FSA	Field Support Advisor	A field based Post Office employee who delivers new entrant training, conducts audits and intervention activity within the post office network.
FSC	Finance Service Centre	Formerly P&BA and based in Chesterfield. They collect and monitor data from transactions and liaise with our external clients if discrepancies are found
FSS	Financial Services Specialist	A post office employee who works in a Crown Post Office. They discuss and introduce Post Office financial products to customers but cannot give advice, merely factual information
FTL	Field Team Leader	Manages the activity conducted by FSAs
FTT	Flip Top Till	Used in branches that have open plan or combi counters.
FUB	Follow up Balance	
Gains		A discrepancy showing a higher value between physically counted assets and the expected assets based on sales on Horizon such as cash/stock etc.

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Gateway		A network point that acts as an entrance to other computers on the same internal network.
Giro Slip		The Giro Slip is pre-printed Giro stationery inserted into the slip printer to produce a summary of Giro transactions taken on that day which need to be manually dispatched to the processing centre (Summary of transactional receipts or payments taken on behalf of Santander which was formerly Alliance & Leicester and prior to that Girobank)
Global Economy		A Parcelforce Worldwide service which provides a basic service for sending mail with no guaranteed delivery times to over 200 countries
Global Express		A Parcelforce Worldwide service which provides a Guaranteed delivery timeframe by Airmail
Global Priority		A Parcelforce Worldwide service which provides a Guaranteed delivery by Airmail for Parcelforce Worldwide account holders
Global Value		A Parcelforce Worldwide airmail delivery service
Grapevine		Grapevine is a FREE service provided by Post Office Security to those working within Post Office branches, to keep them updated on criminal activity in their area
HMRC	Her Majesty's Revenue & Customs	Government body that checks that Post Office Limited complies with anti money laundering regulations.
HOL	Horizon Online	Name for the system software which is permanently connected to our servers online
Horizon		Name of the system (equipment, software and processes) used at the post office counters.
HOL (Horizon) Help	Horizon Online Help	An integral facility within the Horizon system which allows individuals to find and also print post office instructions on products and services, which can be accessed whilst serving a customer.
HSH or HSD	Horizon Service Helpdesk or Horizon Service Desk	This is the contact centre for branches who need technical help with their Horizon equipment- For example if a replacement screen is needed or an engineer visit needed to fix a technical issue. It's accessed by calling 0845 6011022 and choosing the option for technical enquiries relating to your Horizon system including hardware.
ICO	Information Commissioner's Office	Independent public body set up to promote access to official information and protect personal information.
IPS	Identity & Passport Service	
IRIS	Interactive Recruitment Information System	The database we use for advertising and also applying for any Royal Mail Group job vacancies. This can be accessed from internal and external websites.
ISA	Individual Savings Account	A tax free savings account where a certain amount can be invested within each tax year.
ISF	International Signed For	An optional extra product offered by Royal Mail which allows for a signature on delivery for mails overseas which can also provide compensation if lost/damaged
IT	Information Technology	The term is commonly used as a synonym for computers and computer networks, but it also includes other information distribution technologies such as television and telephones
Keyboard		The hardware attached to the laptop or as a peripheral item on a PC that allows for inputs to be made using number or letter keys plus command keys
Losses		A discrepancy showing a lower value between physically counted assets and the expected assets based on sales on Horizon such as cash/stock etc.
Magnetic Cards		A plastic card with a magnetic strip along the back, which is used as a way of paying bills or saving at the post office
Mail Segregation		The standards for how customer's mail is kept and separated within the post office secure area allowing compliance with Royal Mail expectations
Mails Despatch		The time at which the post person collects the mail from a post office branch

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Main PO	Main Post Office	A post office branch which operates under a Mains operating model. These get remunerated for the number of transactions they do.
MI	Management Information	Data received from various streams within the business which allows for performance and transactional information to be collated and used for management decisions
MoneyGram/receive		MoneyGram is a service available in branch which enables customers to receive funds from another individual within the UK and overseas
MoneyGram/send		MoneyGram is a service available in branch which enables customers to send funds to another individual within the UK and overseas
Monitor		The screen of the Horizon equipment
MOP	Method of Payment	The way in which payment is received for a product or service
MOR	Mail Order Returns	A way for customers to return goods they have bought online from Home Shopping retailers. ie. Next. Postage is usually free at branch.
MSPO	Modified Sub Post Office	A term for an ex-Crown Office that is now run by an individual using their own staff but offering the original services available when it was a Crown Office.
MVL	Motor Vehicle Licence	A term used for a vehicle or car tax disc
Mystery Shopper		Mystery shopping is a tool used externally by companies to measure quality of service, or compliance with regulation, or to gather specific information about products and services
NBSC	Network Business Support Centre	The first port of call for post office branches if they have a query or need help. It is a Helpline for Branch Staff for all Robbery, Burglary or major incidents plus all transaction, navigation queries (e.g. which icons do I need to select for a particular product or service) or stock related queries. It's accessed by ringing 0845 6011022.
NCA	Network Change Advisor	Assists in the physical needs of moving/relocating branches. Liaises with alarm and safe companies to ensure work is done to standard and timescale
Network		This relates to the Post Office network of approx. 11500 branches.
NFSP	National Federation of Sub Postmasters	The National Federation of Subpostmasters (NFSP) supports subpostmasters and operators across the UK. They are an independent membership organisation with a commercial trading company to help support the retail businesses of their members.
NS&I	National Savings & Investment	Post Office client. We sell Premium Bonds on their behalf. Used to be called 'National Savings'
NT	Network Transformation	The actual process of branch changes within the Network. Branches are being remodelled internally, others may be relocating. Funding has been received from the Government to support this.
NTP	Network Transformation Programme	This is a term used for the current programme of activity regarding branch changes within the Network using Government funding to support this.
NVI	Non Value Indicator	These are postage stamps where the value is not shown. It may just say 1st Class or 2nd Class on the stamp. These stamps can be used at any point in the future regardless of actual price increases.
OBC	Operational Business Change	
OFCOM	Office of Communications	Regulatory body that outlines the standards we must meet when we promote and sell our Telecoms and Broadband
OIC	Officer in Charge	
ONCH	Overnight Cash Holdings	Derived from declaring actual cash holdings in branch on a daily basis at close of business
One for All Gift cards		A gift card pre-loaded with an amount of cash that can be used in high street stores or online as a method of payment
On-site Training		Where an FSA provides training to an operator at their branch.
OOH	Out of Hours	A stock unit that is used outside the Post Offices core hours
Open Plan		Counter positions with no glass screen. Secure safes are fitted below the counter.
P&BA	Product & Branch Accounting	Also known as 'Chesterfield' and now called the Finance Service Centre
PAF	Postal Address Finder	Database holding postcode and address details. Used for validating transactions or personal records

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Parcel Hatch		A way of securely transferring a parcel from the public side of the counter to the secure area
Partner Banks		These are High Street banks that allow us to do a range of services on behalf of them to enable customers access to their accounts, usually with no charge.
Password		A word known only to an individual which allows access to private/confidential systems or documents
PAWS	Packaging, Address, Weight, Size	These are the basic criteria on which mails items are sent regarding standards of acceptance. Is it correctly wrapped, is there an acceptable address, does it comply with weight and size restrictions?
Paystation		A standalone bill payment terminal similar to our competitors (Paypoint, Payzone), usually situated on the retail side of the branch, that allows customers to top-up gas cards/electric keys and also pay bills if the Post Office counter is unavailable
PFWW	Parcel Force World Wide	Name of the Express parcels arm of Royal Mail Group. They deliver to inland and international destinations and specialise in guaranteed delivery options.
PHU	Portable Hardware Unit	Commonly used for locations with very small customer numbers & where Horizon equipment is taken to various locations to provide a service.
PID	Personal Invitation Document	Old terminology referring to the letter sent to an individual stating that they could fetch their Post Office Card Account card from their local branch - Now referred to as PUN (Pick-Up Notice)
PIN	Personal Invitation Number	Personally known number which allows the user access to processes/transactions. i.e. Cash withdrawal using a Chip & PIN card
Pin Pad		The device, usually on the public counter that allows for entry of the PIN by the customer
PIP	Pricing in Proportion	The method used by Royal Mail to charge on size and weight basis rather than weight alone.
PIP Template		Plastic template used in branches to measure the size of letters and small parcels to determine which price structure to use
PLU	Product Look Up	Rarely used 'shortcut' key on the Horizon keyboard. Every transaction has an allocated product number which, if known, can be typed into the Horizon system. In practice this is not used as we have icons displaying the actual transaction which are easily accessible.
POCA	Post Office Card Account	A basic account that allows for the Department of Work and Pensions to pay an individual's benefits. Nobody else can pay in and the account holder can only take cash out. No interest received on the account
POCA emergency payment		This is a payment, subject to a maximum value as authorised, that may be made to a Post Office Card Account customer during an emergency situation and must be authorised in advance of the transaction. The branch would ring 0845 6011022 and choose the option for authorising emergency POCA payment.
POEx	Post Office External Contact Centre	This is the contact centre for customers to call if they have an enquiry about Post Office Products or Services and availability, to make a complaint or to pass on thanks and recognition. The number is 08457 223344
POFS	Post Office Financial Services	The range of savings and insurance products we have which are sold in branch, online or by post. Products are done in conjunction with Bank of Ireland as a general rule.
POFTS	Post Office Financial Travel Services	Joint venture between Post Office Ltd and Bank of Ireland which manages financial products offering travel money, travellers cheques and the Travel Money Card
POL	Post Office Limited	Part of Royal Mail Group wholly owned by the Government. Responsible for maintaining the number of Post Office branches in the UK
PO Local	Post Office Local	A post office branch with a Local operating model contract. These are generally smaller branches with a large retail side which have the Horizon system next to their retail till. They offer a slightly smaller product range for ease of transactions.
POS	Point of Sale	Leaflets and posters in branch identifying our products and services

Appendix 1

Postage Labels		A self adhesive label that is produced by Horizon showing the value of the postage required on a mails item. These have replaced stamps as a general rule as they allow for faster processing at the counter and with Royal Mail
Postal Order		A printed document similar to a cheque but processed and owned by Post office Ltd. Can be made for any value up to £250 and is a guaranteed funds document. Payable into a bank account or potential to be encashed in a Post Office branch
Printed Papers		A service/pricing structure for sending mail abroad. Criteria means only certain items can be sent this way. ie. Books, magazines.
PSA	Performance Standards Assessment	A document used during training to support a clear learning path.
PSTN	Public Switched Telephone Network	
PSB	Premium Saving Bonds	An investment opportunity from National Savings & Investment Product which we sell on behalf of
PSU	Power Supply Unit	
PUN	Pick-up Notice	A document that a customer needs to be in receipt of, enabling them to collect their Post Office Card Account card from a branch
Rates Board		An Electronic Board displaying daily foreign currency rates, usually in larger branches and visible from the outside of the building
REM	Remittance	A consignment to or from a Branch of Cash, Stock or other values to be brought to account
Rem In	Remittance In	Recording the movements of items into a Stock Unit/ Branch (Cash and value stock)
Rem Out	Remittance out	Recording the movements of items out of a Stock Unit/ Branch (Cash and value stock)
Remuneration		This is how an Agent gets paid from Post Office Ltd. It is based on a product payment for each transaction they do and differs from one transaction to the next
Restrictions Policy		A list of transactions that is restricted within a Post Office branch
Reversal		The act of taking out a transaction that has been done previously on the Horizon system. Often used to correct errors.
RM	Royal Mail	Subsidiary of Royal mail Group - responsible for delivery and collection of mail within the UK.
RM Authority Card		A plastic card from Royal Mail, issued to business customers after vetting procedures are completed, which allows and authorises the purchase of large volumes of postage stamps where the business wishes to pay by cheque. The card has the business details on and is used as a guarantee that the cheque will be honoured (not bounce)
RMCS	Royal Mail Customer Service	This is a Royal Mail contact centre for all personal and business customer enquiries. Personal Enquiries are made on 08457 740 740 and Business Enquiries are made on 08457 950 950.
RMG	Royal Mail Group	The managing company overseeing: Royal Mail, Post Office Ltd., Parcelforce, and General Logistics Systems (GLS). UK's largest employer
RML	Royal Mail Letters	
RMSD	Royal Mail Special Delivery	A secure next day delivery offered by Royal mail giving priority handling and a guaranteed delivery window of either by 9am or 1pm.
ROMECC	Royal Mail Engineering Construction	Outsourced facilities management for RMG (id cards, clock setting, cleaning, alarm maintenance etc)
RSF Stamps	Recorded Signed For Stamps	A stamp that can be used to pay for a Royal Mail 'signed for' service where the item is a basic weight letter/large letter
RSM	Regional Sales Manager	An individual who looks after a number of branches within a geographical area and gives sales support to those branches through coaching and delivering workshops
RSP	Retail Service Point	
SCM	Sales Capability Manager	An individual whose responsibility is to the NT converted branches ensuring compliant and correct sales conversations are in place. Generally for a short time period of up to 2 months.
SCD	Single Counter Office	One positioned branch. Could be open plan or fortress based (behind glass screen)

Appendix 1

Secure Area		An area within the post office where cash, stock and mails items are kept. No access allowed to the general public
Settle centrally		Removes the amount from the Branch accounts into a holding account at P&BA, Chesterfield.
SIDS	Self Inking Date Stamp	A metal date stamp that self inks in between stamping used for validating transactions showing location and date
Single Trip Policy		A Travel Insurance policy which covers one defined period of time as needed by the customer
Small Parcel		A term used in conjunction with sending mail, up to a certain size.
SOP	Standard Operational Procedure	
SORN	Statutory off Road Notification	Informs the DVLA that the owner of a vehicle is taking it off the road
SPMR	Sub postmaster	Traditional name for the individual who owns a branch. Other terminology - Agent or Operator
SPSO	Scale Payment Sub Office	Refers to the type of branch and which contract they are on.
Stamp Dec	Stamp Declaration	The process of making a formal and complete statement of the physical Stamp holdings within the till, usually done when completing the balance.
Stamp Portfolio	Stamp Book	A book that holds loose stamps
Stock on Hand		A list of all stock the office is holding excluding cash (Postal Orders, stamps, tax discs etc)
SU	Stock Unit	A title given to an account which holds a particular amount of cash and stock. Most branches use one stock unit and identifier, normally AA, but some larger branches have multiple stock units and are allocated to individuals for greater responsibility/security
SVM	Stamp Vending Machine	
Swipe Card		A magnetic card sometimes used for paying bills
T&C	Terms & Conditions	A definition in words between the consumer and the product owner outlining standards
T&T	Track & Trace	Offered by Royal Mail or Parcelforce Worldwide for certain products which allows online/call centre tracking and confirmation of delivery for mails items
TA'S	Transaction Acknowledgments	An electronic confirmation of certain transactions based on transaction data from external clients which is sent to a branch for them to process.
TC'S	Transaction Corrections	An electronic accounting adjustment issued by Finance Services Centre Chesterfield which corrects previous errors in branch. This has an impact on the branch balance and would cause a discrepancy for the value issued.
TDLK	Time Delay Lock Compartment	
TMC	Travel Money Card	A card that is available in branch or online in certain currencies which allows for a prepaid value of currency to be loaded. Can be used as a Mastercard to pay for products, primarily abroad, and also able to withdraw cash from ATM's abroad. They have the security of a chip & pin and the convenience of a debit card but are not actually linked to a bank account.
Top Up		The process of adding credit to a pre-paid card, typically mobile phones
TP (BTP)	Trading Period (Branch Trading Period)	A period of time where at the end a branch must do a monthly balance. Usually 12 periods in a year, depending on the number of fiscal weeks.
Transaction Log		A report which allows for Horizon to be interrogated and produce transaction and events processed in the last 42 days
Transaction Reference Number		An individual reference number generated for each transaction
Travellers Cheques		A form of currency to be used when travelling

Appendix 1

Trial Balance		The process of going through and declaring all cash plus stock in hand, as per Balance Report, and producing the report. A trial balance shows the user the current state of the balance but as it is only in 'trial' format, it allows for the activity to be cancelled without committing figures.
UKBA	United Kingdom Borders Agency	
Ultra Violet Feature		Security elements which are only visible under a UV light, used mainly on bank notes, driving licences and passports
Up Sell		The process of selling more of the same item to the customer. ie. If a customer asks for 10 stamps, the clerk should offer them a book of 12
User Name		A logon access code which is identifiable to the individual based on a standard format. This is to enable usage of the Horizon system whilst still being compliant and accountable
VPN	Virtual Private Network	Allows employees to securely access their company's intranet while traveling outside the office
VR	Voluntary Redundancy	Whereby staff voluntarily leave the business in exchange for agreed terms.
Watermark		A faint design made in some paper during manufacture that is visible when held against the light
WHS	WH Smith	Post office branch services are now located in many high street WH Smith's. They have roughly 70 branches across the country, mainly ex Crown Offices
WTLL	Work Time listening and learning	This is a regular training session which many branches and Post Office Ltd internal teams use to cascade information and receive feedback from team members

Appendix 2

Post Office List of products

Service	Availability	Description of service
Government Services		
Post Office Card Account	All branches	A basic account for customers who are in receipt of state pensions, benefits & tax credits and who do not have a UK bank or building society account. Payments are made into the account by the paying department and customers can withdraw cash at all Post Office branches or the Post Office cash machine network.
Local council services	Local Area based	Services on behalf of over 300 local councils covering a wide range of applications and payment services both from and to residents and customers. Services include cash collection from residents for rents, rates, council tax, parking fines and licence fees, payment services including asylum seekers allowances, and rebates, form checking including benefits, planning and concessionary travel applications and identity checking and verification services.
Car Tax – Motor Vehicle Licence Issue	4,600 branches	Car Tax - Motor Vehicle Licence and Statutory Off Road Notification (SORN) services provided. Customers can have their documents checked and get their licence at issuing Post Office branches nationwide.
Driving Licence photo card renewal	750 branches	Allows photo cards to be renewed and makes sure the photo card renewal application meets DVLA requirements by taking a photo to the required DVLA standards, ensuring that the application is error free, capturing an electronic signature and sending the application electronically and securely to the DVLA.
International driving permit	Selected branches	Applications can be made in selected branches for an International Driving Permit which is required to drive legally in many places overseas alongside a UK driving licence.
Passport Check & Send	2,500 branches	Customers can take their passport applications to a Post Office where the application form and documentation are checked to ensure that everything is correct. The application is then despatched by Royal Mail Special Delivery priority processing.
Identity checking services	Selected branches	Customers who need to have photocopies of identity documents certified (for example when applying for a mortgage, bank account or new job), can have original documents checked and photocopies certified at the Post Office.
Biometric Residence	Selected branches	Customers who need to apply to stay in the UK who

Permit Application for the Home Office		are from outside the European Economic Area (EEA) may need to apply for a Biometric Residence Permit and can do so at selected Post Office branches if they receive an invitation letter from the Home Office. The Post Office captures the customer's biometric details by taking their photograph, fingerprints and digital signature and sends the information securely to the Home Office.
CQC – CRB registration service	Selected branches	The Care Quality Commission (CQC) is the independent regulator of all health and social care services in England. Customers who need a Criminal Records Bureau (CRB) check from the CQC can get their application checked at the Post Office to verify their identity.
Rod fishing and game licences	All branches based on demand	A range of rod licences available for angling in England and Wales and game licences to hunt game are stocked in branches where there is local demand. Fishing licences are available in England and Wales only. Game licences are available in Scotland and Northern Ireland only.
Financial services		
Personal banking	All branches	Free over-the-counter cash withdrawals, cashing of personal cheques, cash deposits or cheque deposits (the latter in most cases) for partner banks, e.g. Bank of Ireland, Bank of Scotland, Barclays, Cahoot, Clydesdale Bank, First Direct, First Trust, Halifax, HSBC, Lloyds TSB, Nationwide, NatWest, Northern Bank, Santander, Smile, The Co-operative Bank, Royal Bank of Scotland, Ulster & Yorkshire Bank.
Business banking	All branches	Business banking services available in branch on behalf of Santander, Co-operative, Bank of Ireland, Barclays and Clydesdale.
Cash machines	Over 2,000 locations nationwide	Over 2,000 free-to-use cash machines are available at Post Office branches nationwide.
Bureau de Change	All branches	A wide range of commission free currencies and American Express travellers cheques, 1,600 branches offer a range of currencies on demand. An additional 2,500 branches offer Euro and Dollars on demand, a further 3,436 offer Euros on demand as well as Turkish Lira in the Summer. An additional 4,500 branches offer Euros on demand either in branch or online. Currencies can be pre-ordered for collection at any branch.
Travel insurance	All branches	All branches and available on demand in 9,000 branches and via phone.
Travel Money Card	Selected branches	The Post Office Travel Money Card is available in three currencies – Euro, US Dollar and Sterling – it is a pre-paid card that customers can load with currency. It can be topped up at selected branches or over the phone.

Moneygram	All branches	International money transfer of up to £6,000 to over 150 countries.
Automated bill payments	All branches	Acceptance of payment and pre-payment towards a variety of bills including gas, electricity, water, phone, council rent, mail order and insurance. (Some schemes available on an area basis as agreed with local authorities.)
PayStation and charging of electricity smart cards	All branches	To charge electric keys, Quantum Gas Cards, E-pay Transactions. (Stocks of electricity tokens for meters are also available in selected branches based on local schemes.)
Mortgages	Selected branches & online	A range of mortgages are available including fixed rate mortgages and tracker mortgages.
ISA	All branches	The Post Office offers a fixed rate and variable rate ISA: applications by phone, post or at the Post Office. A junior ISA is also available which is a stocks and shares Junior ISA: applications on-line or by phone.
Growth Bonds	All branches	Fixed term bond product offering 1, 2 & 3 yr terms. Apply by post, phone or at the Post Office.
Reward Saver	All branches	Variable interest rate product with a bonus for the first 12 months. Apply by post, phone or at the Post Office.
Instant Saver	All branches	Easy access variable rate product with a bonus for the first 12 months. Available across over 60,000 LINK cash machines. Apply by phone, post or at the Post Office.
NS&I Premium Bonds	All branches	Premium Bonds are an investment where, instead of interest payments, investors have the chance to win tax-free prizes. When someone invests in Premium Bonds they are allocated a series of numbers, one for each £1 invested. Minimum purchase is £100. Customers can hold up to £30k. Apply by phone, at a Post Office branch or online.
Mail Services		
UK Parcels Guaranteed	All branches	Guaranteed UK Parcel services for next day deliveries: <ul style="list-style-type: none"> - Royal Mail Special Delivery Guaranteed by 9am® - Royal Mail Special Delivery Guaranteed by 1pm® - Parcelforce Worldwide express24 - Parcelforce Worldwide express9, (available in selected branches), express10 and express AM
UK Parcels Confirmed	All branches	Confirmed UK parcel services: <ul style="list-style-type: none"> - Royal Mail Signed For® 1st Class - Royal Mail Signed For® 2nd Class

		- Parcelforce Worldwide express48
UK Parcels Standard	All branches	Standard UK parcel services are reliable and easy to use and offer a range of delivery options for non-valuable items: - Royal Mail 1st Class - Royal Mail 2nd Class - Parcelforce Worldwide express48
International Parcels Guaranteed	Selected branches	Guaranteed international parcel services for international parcel delivery, with the added security of end-to-end tracking and online confirmation of delivery: - Parcelforce Worldwide globalexpress - Parcelforce Worldwide globalpriority
International Parcels Confirmed	All branches	Confirmed international parcel services with tracking or signature on delivery: - Royal Mail Airsure® - Royal Mail International Signed For®
International Parcels Standard	All branches	Standard International parcel services: - Royal Mail Airmail - Royal Mail Surface Mail - Parcelforce Worldwide globalvalue(available in selected branches) - Parcelforce Worldwide globaleconomy(available in selected branches)
Drop & Go	All branches	Drop & Go – a free, fast-track service, aimed at Small Businesses, internet sellers and customers sending regular amounts of mail. Uses a prepaid card, and helps speed up the branch journey for these customers.
Additional postage services	All branches	Articles for the blind, HM Forces letters (British Forces Post Office) etc.
Philatelic	Selected branches	Royal Mail special issue stamps and associated products, such as presentation packs and first day covers (stocked based on demand).
Local Collect	9,771 branches	Undelivered postal items are taken to the nearest participating Post Office by the postal delivery staff for later collection or customer has opted for the collection at their local Post Office branch.
Redirection	All branches	Mail redirection service for customers who are moving home.
Telephony		
Home Phone	All branches	The Post Office phone service offers customers line

		rental and calls. Application process at Post Office branches, online or by telephone.
Broadband Essential with Home Phone	All branches	Capped usage broadband service available nationwide, minimum 12-month contract. Application process at Post Office branches, online or by telephone.
Broadband Premium with Home Phone	All branches	Unlimited usage broadband service, wireless router, available coverage. Application process at Post Office branches, online or by phone.
Phone cards	All branches	UK International calling card offering calls to national and international destinations.
Mobile E top-ups	All branches	Top-up service for all pre-pay mobile providers through Horizon and PayStation.

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21 August 2014

Initial Complaint Review and Mediation Scheme

BRIEFING REPORT - PART TWO

PREPARED BY

SECOND SIGHT

This Report and accompanying documents are confidential and are not to be disclosed to any person other than a person involved in the processing of Applicants' claims through the Scheme

Introduction

- 1.1. This Report has been prepared by Second Sight, which is the trading name of Second Sight Support Services Limited, the company appointed to conduct an independent investigation into a number of matters raised by Subpostmasters, or former Subpostmasters.
- 1.2. Part One of our Briefing Report (Part One), issued on 25 July 2014, describes some aspects of Post Office branch operating procedures and related functions of the Horizon system and makes reference to this Part Two of our Briefing Report.
- 1.3. This Report expands on the main common 'Thematic Issues' that have been raised by many Subpostmasters in their applications to the Mediation Scheme (the Scheme). This has been done in the interests of efficiency and in order to avoid duplication across many cases.
- 1.4. The Report structure follows a modular approach with each Thematic Issue, as broadly defined by Second Sight, forming a separate section within the Report. There are some topics on which further enquiries and investigations by both Post Office and Second Sight are continuing, which when finalised may be included in future updates to this Report.
- 1.5. This 'Part Two' Report is therefore a 'living document' that will be periodically updated as we develop better evidenced views on each of the matters raised.
- 1.6. The number of occurrences of each Thematic Issue, from the total population of 150 applications to the Scheme, is indicated throughout this Report using the following groupings and descriptions:

Few	Less than 15 instances
Many	Between 15 and 70 instances
Most	More than 70 instances
- 1.7. In this context, the most commonly reported issue (complaints about Training and Support) has been raised by over 130 Applicants, while the least-reported issues (concerns about Pensions and Allowances transactions and Motor Vehicle Licences) were each raised by only 13 Applicants.
- 1.8. In order to put our comments in context, the issues being considered are based on concerns raised by 150 Scheme Applicants from a total population of approximately 11,500 Branches.
- 1.9. The identification of a Thematic Issue occurs at the time that a Case Questionnaire Response (CQR) is initially considered by us. As the Scheme process continues the underlying concerns are further explored and conclusions are set out in the Post Office Investigation Report (POIR) and then in our Case Review Report (CRR). This Report describes Thematic Issues in more detail.

- 1.10. Comments on a draft of this Report have been provided by Post Office and by the Justice For Subpostmasters Alliance (JFSA), and we have taken account of those comments when finalising it.
- 1.11. In considering the CQRs submitted to us, the seven year Data Retention Policy of Post Office has in some cases limited the availability of evidential data. This Policy applies to both Horizon transactional data (held by Fujitsu) and also to other business records such as emails, letters, memos, interview recordings, transcripts and Audit and Investigation Reports.
- 1.12. Until recently, Post Office did not appear to operate a *'litigation hold'* process whereby documents that may be needed to support a complaint or investigation are preserved – irrespective of the seven year retention period.

2. Process

- 2.1. Scheme Application Forms and CQRs included a section asking what were the Applicant's main issues of concern. As the Scheme progressed it became clear that some issues were being raised by multiple Applicants. We listed the seventeen most commonly described Thematic issues and then referred to these throughout the rest of the process.

3. Scope

- 3.1. The definition of Horizon for the purposes of our work was considered in our Interim Report of July 2013 as follows:

".... the name Horizon relates to the entire application. This encompasses the software, both bespoke and software packages, the computer hardware and communications equipment installed in branch and the central data centres. It includes the software used to control and monitor the systems. In addition..... testing and training systems are also referred to as Horizon".

Whilst we have adopted this Post Office definition of Horizon, it has been necessary to extend it so as to properly include the totality of the Applicant's experience of using Horizon. We have therefore found it necessary to also consider issues such as the Audit and Investigative processes and the Contract between Post Office and Subpostmasters.

4. The Contract between Post Office and Subpostmasters

- 4.1. This section deals with two separate issues. First, the potential impact on Subpostmasters of some of the terms and conditions set out in the Contract and secondly, issues relating to the notification to Subpostmasters of the terms of the Contract.
- 4.2. The following extracts are taken from the 'Standard Contract' (dated September 1994) between Post Office and Subpostmasters. This is a 114-page document, that now incorporates several post-1994 amendments. A copy of the entire document is available on request.

- 4.3. The Standard Contract is described by Post Office as an arms-length, commercial transaction in the nature of an agency contract.
- 4.4. The contract allocates several financial and other risks to Subpostmasters who may not have understood or appreciated those risks, particularly if they failed to seek independent legal advice before taking up their post. Our comments on the clauses most relevant to our Review are made solely from a business perspective.
- 4.5. The Standard Contract spells out the rights and responsibilities of both Post Office and Subpostmasters. The clauses most frequently referred to by Applicants are as follows:
- a) **Section 17:** (in the November 2002 amendment) lists the *Key Products and Services* (also referred to as the core products and services).
 - b) **Section 15:** (in the November 2002 amendment) refers to responsibility for the training of the Subpostmaster and, in turn, of the staff employed in a branch. Under this section the *Post Office undertakes to provide the Subpostmaster with relevant training materials and processes to carry out the required training of his Assistants on the Post Office Products and Services... and the Sub-Postmaster accepts the responsibility to ensure the proper deployment within his Post Office branch of any materials and processes provided by Post Office Ltd and to ensure that his Assistants receive all the training which is necessary in order to be able to properly provide the Post Office Products and Services and to perform any other tasks required in connection with the operation of the Post Office branch.*

Also... Post Office Ltd may request from time to time that where it has obligations as described above the Subpostmaster should conduct specific training (whether through written/distance learning that may require confirmation of completion or via presentations) in relation to certain Post Office Services (such as, but not limited to, money laundering). Failure by the Subpostmaster to arrange for such training to be properly applied will be deemed to be a breach of this Contract by him.

- c) **Section 1, paragraph 10:** requires three months notice of contract termination from the Subpostmaster to Post Office and allows Post Office to:

Terminate a Subpostmaster's contract at any time in case of Breach of Condition by the Subpostmaster, or non-performance of his obligation or non-provision of Post Office Services, but otherwise may be determined by Post Office on not less than three months notice.

In section 12 of the Standard Contract there are a number of paragraphs, as set out below, addressing responsibility for losses and shortages. These paragraphs are at the heart of nearly all of the cases being considered in the Scheme.

d) **Section 12, paragraph 12:**

The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay.

e) **Section 12, paragraph 13:**

The financial responsibility of the Subpostmaster does not cease when he relinquishes his appointment and he will be required to make good any losses incurred during his term of office which may subsequently come to light.

f) **Section 12, paragraph 14:**

Surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately.

g) **Section 12, paragraph 17:**

Subpostmasters may exceptionally not be required to make good the full amount of certain losses at his office. If he feels entitled to relief in making good a loss he should apply to the Retail Network Manager.

h) **Section 19, paragraph 12:** deals with enquiries by officers of the Post Office Investigation Division and states that:

The main job of the Investigation Division is to investigate, or help the Police to investigate, criminal offences against the Post Office, British Telecommunications and the Department of National Savings. The Investigation Division does NOT enquire into matters where crime is not suspected.

i) **Section 19, paragraph 19:** allows persons interviewed by Post Office's Investigators to have a friend present during the interview but that person may not interrupt in any way, either by word or signal.

4.6. Having considered the Standard Contract in some detail from a business perspective, we are of the opinion that it can, in some circumstances, operate to the detriment of the Subpostmaster, who may not have reviewed nor fully understood the terms before accepting or declining to enter into the Contract. We have not seen any evidence that Post Office either advises or requires Subpostmasters to seek independent legal advice before taking up their posts.

4.7. The Standard Contract places a number of financial and other risks with Subpostmasters who may not have properly understood or appreciated those risks, particularly if they failed to seek independent legal advice. Consequently, there is a risk that appropriate risk mitigation measures may not be implemented by the Subpostmaster.

- 4.8. We have been told by many Applicants that they were not given a copy of the 114 page Standard Contract until long after they had committed to purchase their sub-post office, or long after they had started work as a Subpostmaster, or even at all.
- 4.9. We are advised that in some cases, a copy of the Standard Contract was not provided to the Applicant until Post Office commenced litigation. Post Office has stated that its Standard Operating Procedures require that Subpostmasters are provided with a copy of the Standard Contract no later than the day that they start work but this often seems not to have happened.
- 4.10. We understand that it is common practice for a new Subpostmaster to sign an 'Acknowledgement of Appointment' letter that refers to the Contract, but without necessarily being provided with a copy of it. In so doing the Subpostmaster acknowledges receipt and acceptance of its terms and conditions, without necessarily being aware of its specific provisions.
- 4.11. It is worth noting that retaining evidence of the provision of the Standard Contract to the Applicant has never been part of the Post Office's Standard Operating Procedures.

5. Automated Teller Machines (ATMs)

- 5.1. Our Part One Report provides, in sections 5.23 to 5.29, background information on the installation and operation of Automated Teller Machines (ATMs).
- 5.2. When a Post Office branch is equipped with an ATM it can be located either within or external to the branch premises. The installation of an ATM at a branch is often desirable as it can result in greater footfall and, as a consequence, increased sales of both Post Office products and services and those of the co-located shop. Most of the reported problems we have seen relate to Bank of Ireland (BoI) ATMs and some to HANCO ATMs. All of the problems we have seen so far relate to external ATMs.
- 5.3. Problems with ATMs have been reported in more than 20% of the cases considered so far and have included both small and large shortages that were charged back to Subpostmasters by Post Office. In other cases, large surpluses occurred, which caused concern to some Applicants.
- 5.4. The normal cash dispensing process on BoI ATMs involves electronic interaction between the Branch's ATM; Wincor Nixdorf (the service and maintenance provider); the LiNK platform and the customer's bank. The ATM cash balancing/reconciliation process involves electronic and also manual interaction between the Branch's ATM; the Branch's Horizon system; Post Office's Financial Service Centre (the 'FSC') and BoI. This is a complex arrangement, requiring greater human intervention, at the end of each business day, than that typically needed in most high street banks whose ATMs are seamlessly connected to their own computer systems.
- 5.5. One notable problem, reported by many of the Applicants raising concerns about ATMs, seems to relate to the manual (rather than electronic/automatic) extraction and use of the '*cash dispensed*' figures from the '*Bank Totals*' receipt that Subpostmasters are required to obtain

each day from their ATM and their daily input of 'cash declarations' into Horizon. This has been referred to by some Applicants as having to deal with an 'air gap' between their ATM and the Horizon system.

- 5.6. In February 2008, Post Office issued an 'Operations Manual interim'. Post Office stated that it was issuing new instructions because "a number of non-conformance issues are still affecting the processes for ATM reconciliation and settlement and to explain the correct end-to-end accounting processes relating to Bank of Ireland ATMs".

- 5.7. The introduction to the *Operations Manual interim* stated:

The Bank of Ireland, via the LiNK network, extracts a 16:30 - 16:30 'cash dispensed' figure automatically from your ATM each day. This figure forms the basis of a settlement to Post Office. This figure is the value of cash dispensed from your ATM from 16:30 the previous day until 16:30 on the current working day.

In other words, the amount of cash dispensed to customers, from each branch's ATM during the previous 24 hours (or during the previous 72 hours between Friday at 16:30 and Monday at 16:30), would be available to BoI and that data would be extracted by BoI from each ATM.

- 5.8. The *Operations Manual interim* goes on to say:

In order to meet the required business accounting standard, branches are required to obtain each day the 16:30 - 16:30 'cash dispensed' figure from the 'Bank Totals' receipt which is available from the Bank of Ireland ATM, and to enter this figure on the Horizon system on a daily basis.

The Manual later describes that as needing to be done each day after 16:30 but before 19:00.

- 5.9. The Manual continues:

In Product and Branch Accounting (P&BA) a comparison is made between the LiNK generated figure and the figure you enter on Horizon. If the totals differ, they are queried with Bank of Ireland and may result in a Transaction Correction sent to your branch. If you do not enter the daily 16:30 - 16:30 'cash dispensed' figure on Horizon, this means that the settlement figure by Bank of Ireland cannot be confirmed. In this case the two sets of figures are automatically reported as differing, resulting in reconciliation problems.

- 5.10. In addition to obtaining the cash dispensed figures from their ATM and entering them into Horizon at the correct time of day, Subpostmasters were also instructed to make a daily cash declaration (and do this every day including on days when the branch closed before 16:30 hrs) through their Horizon terminal. Specifically:

You must make a daily cash declaration on the Horizon system for the separate stock unit you have set up for ATM transactions (including days when you close before 4.30pm (16:30 hours) and you have logged on to the ATM stock unit). Unlike cash declarations for your counter stocks, however, you do not need to make a physical count of the cash contained in the ATM in order to complete the declaration.

You must make the declaration before 7pm (19:00 hrs) and you must include all funds stored in your official safe that you have received on a Remittance specifically for your ATM.

5.11. It would appear that some Applicants misunderstood the instructions, and some were told by Helpline staff, when they were investigating differences, that "*the problem will sort itself out*" (though it did not). Any differences would normally be expected to be resolved by means of Transaction Corrections, however this often meant that further errors were made. Many Applicants have also reported that they subsequently found that the Helpline's advice was later countermanded. Comments referring to problems with Helpline advice are found in the CQRs in nearly every instance where the Applicant experienced problems with an ATM.

5.12. A consequence of a user getting things wrong with the ATM cash dispensed figures and inputting incorrect data and hence causing an initial discrepancy was that an out-of-sync situation could develop where the branch's ATM would be expected (by BoI and by Post Office) to have an amount of cash in its cassettes that was different from the cash figure that the Subpostmaster had entered into Horizon.

5.13. Based on comments in many CQRs the problems reported by Applicants relating to this out-of-sync situation, became, it seems, what can be described as commonplace in some branches prior to the February 2008 release of the Manual Update.

5.14. The Manual Update confirms that, by following the new instructions, the process for entering data and balancing ATM cash will change and states:

If following the instructions contained in this workaid means that the way you will now enter data on Horizon and balance your ATM cash will change (for example, if you have previously entered figures which are not based upon the 16:30 - 16:30 figures or if you have not completed this task daily, moving to the correct process is likely to result in a cash balancing difference).

If this is the case, P&BA will issue a Transaction Correction, to address the cash balancing differences, and will try to provide clear evidence and as much information as possible to help with correcting transactions. The correction assumes that all previous ATM dispensed figures have been recorded on Horizon accurately and that branch cash has been correctly declared.

5.15. Many Applicants have commented on their view of the complexity of the processing of ATM figures in Horizon and the general lack of clarity and hence ease of use of the guidance and instructions issued by Post Office. We consider that the February 2008 instructions represent a good example of this complexity and show how easy it might have been for some Subpostmasters to make mistakes. This is an extract from the paragraph titled *Loading cash into the ATM*:

Always enter in the ATM the number of notes loaded in the machine, not the value

Ensure that you enter the number of notes you are loading, not the amount already in the ATM

Please remember: At the weekly balance all figures are cleared. Therefore, you will need to enter all amounts in total when you reload the machine next.

- 5.16. As an additional example, the following extract is from the paragraphs dealing with *Weekly balancing and recording figures on the Cash Management Sheet*:

You must make a physical count of the cash in your ATM at least once a week and record the figures on the Cash Management Sheet before removing the cassettes for your physical check of the cash. You must not enter any of the figures on the Horizon system. The weekly balance can be carried out on any day of the week, even at the end of a Branch Trading period as long as your premises are closed to the public. It should be completed at any time after 16:30 hrs when the Disp 16:30 – 16:30 figure has been entered.

Please note: You do not have to reconcile the cash in your ATM with the cash declaration you make on Horizon. The ATM is balanced using the Cash Management Sheet as described below. If the Cash Management Sheet balances, your ATM has balanced.

- 5.17. ... and the following extract is from the paragraphs dealing with *If the Cash Management Sheet balances, but there is a discrepancy on Horizon*:

The Horizon system should not be recording a discrepancy in the ATM stock. If a discrepancy is not rectified, it will give you a wrong carried forward figure and the problem could be compounded. If there is a discrepancy on Horizon but the Cash Management Sheet balances, you could have entered incorrect figures on the Horizon system.

Go back through your receipts and double check that the 16.30-16.30 'cash dispensed' figures for each day have been entered correctly on Horizon.

Check that any ATM cash originally remitted into a counter stock has been transferred into the ATM stock

Check that the transfer into the ATM stock has been accepted

Double check that the daily cash declaration has been completed accurately

If you cannot resolve the discrepancy, do not phone the Wincor Helpdesk; please phone the NBSC for advice.

- 5.18. In those cases in which the Applicant reported concerns about an out-of sync situation most have stated that they had no idea what was causing the problem. The 2008 Manual Update did little to resolve those issues. Furthermore, if the branch's ATM was operating after the 16:30 BoI 'cut-off' time during the week and/or at weekends (as would clearly be the case with externally located ATMs), then the transaction volumes and associated accounting entries on the following Monday would include all cash dispensed in the preceding 72 hours between 16:31 on the previous Friday afternoon and 16:30 on that afternoon.

- 5.19. We have also been told that when ATM-related reconciliation and out-of-sync problems were reported to the Helpline, Applicants were often told to *ignore the shortfall because it will sort itself out*. The advice from the Helpline, particularly prior to the 2008 Manual update,

appears to us (based on comments and reactions from Applicants) to have been inadequate or possibly even misleading. It may also have had the unintended consequence of causing Applicants to give up trying to understand and resolve problems. This in turn, could have led to the temptation to *falsely account*, while waiting for the problem to "*sort itself out*".

- 5.20. Many Applicants have commented on the apparent impact on their branch's ATM of power or telecommunication failures. Other than recording in some cases the dates and times of such failures, it was difficult for them to relate those failures to specific deficiencies. It is recognised that there are standard processes in place to deal with power cuts and connectivity interrupts to ensure that data is not lost or corrupted when those events occur. Nonetheless, the need in such circumstances for an ATM to be re-booted by the Subpostmaster, or for it to be remotely re-booted by Bol, could in our view, introduce a possible risk of data loss or corruption. Post Office has given assurances that this cannot happen, and that it never has happened, but some evidence seemingly contradicts those assurances, so further enquiries on this point are continuing.
- 5.21. There have been many reported instances where a cash withdrawal could not be completed due to a problem occurring during the transaction. We understand that this occurs reasonably frequently and can be due to a mistake by the customer. Depending on when the problem arose it is possible for cash that should have been dispensed to the customer to be withheld by the ATM but the customer's bank account nevertheless debited.
- 5.22. When cash is dispensed by an ATM, and there is a delay in the customer physically removing it, the ATM will, after a set period, retain the cash. This is known as a retract.
- 5.23. In most instances such retracts occur because customers get distracted and walk away having failed to take the offered notes within the pre-set timeframe (usually 60 seconds). In such instances, the customer's account will be debited and, in due course, his account will be re-credited once (if he notices his mistake) he contacts his bank to report what happened. Those notes should have been found, at the end of that day, in the ATM's 'retracts bin'. All that is innocent and not a cause of problems to any Subpostmaster. The more serious aspect of retract fraud is dealt with below.
- 5.24. It is possible that some of the large discrepancies reported by Applicants could have included losses brought about by external theft where sophisticated methodologies had been deployed (such as retract fraud or the more advanced transaction reversal fraud). The risk and consequences of this sort of theft/fraud, and the need to thoroughly investigate every apparent ATM cash shortfall, seems to have been under appreciated.
- 5.25. We are aware of a project, carried out by Post Office in 2012, to react to increasing retract fraud but we have been told that no report was produced and we have, as yet, been unable to check whether any Applicants were held accountable for losses that were, or might have been, attributable to external ATM fraud/theft.

6. Motor Vehicle Licences

- 6.1. Not all branches are authorised to issue Motor Vehicle Licences (MVL) and only a small number of Applicants have reported problems with MVL processing. We have seen a small number of instances of a particular problem. This relates to V11C forms that were misprinted with an incorrect bar code. This seems to have resulted in Horizon recording the sale of a 12 month tax disc, when in fact a 6 month tax disc was sold.
- 6.2. If this error is not immediately noticed at the Horizon terminal, a discrepancy, being the price difference between the 6 and 12 month MVL Tax Discs, will occur and the Subpostmaster will later be held accountable for the resultant cash shortfall. In branches issuing large numbers of MVLs this could become a significant amount.

7. National Lottery

- 7.1. Not all branches sell Lottery tickets or Lottery Scratch Cards. Where these items are sold, they are usually sold from the co-located shop's retail counter, rather than from the Post Office counter, even though they have to be accounted for using the Horizon terminal at the Post Office counter.
- 7.2. There is often a significant difference in the opening hours of the counter in the retail shop and the shop's Post Office counter. The retail counter will therefore be selling Lottery tickets/Scratch Cards outside the hours when the Horizon system is operating at the Post Office counter. Since branches are not allowed to sell National Lottery products other than through the Post Office, each day's ticket sales have to be recorded, the following morning, in Horizon. Also, before any Lottery Scratch Cards can be sold, they must first be 'Activated' on the Camelot terminal and then 'Remmed in' to Horizon.
- 7.3. We have received many reports where Applicants have stated that their branch's Horizon system would get out-of-sync with the quite separate Camelot system, thereby generating material surpluses or deficiencies that were eventually corrected by Post Office issuing Transaction Corrections (TCs) through the Horizon system. The average Lottery-related TC was approximately £650 and many of these TCs were for amounts that were exactly divisible by £160, that being the value of a full pack of Scratch Cards.
- 7.4. Prior to 2012 most discrepancies on Scratch Card activations were caused by Subpostmasters failing to 'rem in' activated packs of Scratch Cards to Horizon. In February 2012 Post Office introduced a system change that finally eliminated the possibility of synchronisation errors between the Horizon and Camelot systems.
- 7.5. These problems appear to have been most serious and frequent between 2005 and February 2010, when Post Office made a significant change to its Standard Operating Procedures. This reduced the possibility of having packs of inactive Scratch Cards recorded in Horizon or having activated packs that were not recorded in Horizon.

- 7.6. We have also been told by Applicants that, before these important procedural improvements were introduced, inconsistent and sometimes conflicting advice was provided by the Helpline, which further exacerbated their problems.
- 7.7. Occurrences of the out-of-sync problem appear to have been particularly prevalent in branches where an associated retail shop sold Lottery tickets late into the evening, after the Post Office counter had closed. A further complication often occurred on the final Wednesday evening of the monthly Trading Period when Subpostmasters were required to reconcile the Horizon and Camelot figures as a priority task on the Thursday morning, rather than at 17:30 on the Wednesday, but this requirement was not always advised by the Helpline. It is not clear whether the training and support that Applicants received covered this important point.

8. Training, Support and Supervision

- 8.1. The nature and extent of training provided by Post Office has developed over the years as described in our Part One Briefing Report. In our opinion, the training was probably adequate for people who had reasonable levels of IT skills, numeracy and accuracy, though further product-specific training, rather than the use of Operating Manuals, was perhaps required for some Subpostmasters, especially those whose branches delivered a wide range of products and services.
- 8.2. We have been told by most Applicants that whilst their basic training was probably adequate in regard to general '*Business as Usual*' Transaction Processing, it was predominately sales-focused and weak in regard to End of Day, End of Week and in particular, End of Trading Period, balancing. We have been advised by most Applicants that there was little or no coverage of how to deal with discrepancies (both surpluses and shortfalls), how to identify the root causes of recurring problems or how to deal with Transaction Corrections.
- 8.3. Many Applicants have commented that, in the years prior to the installation of the Horizon computer system, they typically had monthly surpluses of just a few pounds (less than £30 seemed to be the norm) and that they first experienced large discrepancies shortly after the Horizon system was installed.
- 8.4. Many Applicants have reported that they or their staff only started making serious mistakes after the new system was launched. This could indicate a lack of understanding of how the system was meant to operate and be used, which could itself indicate that they had either been insufficiently trained, that they had been unable to properly train their staff, or that the new screen-based counter processes had introduced new ways of making mistakes that neither they, nor anyone in Post Office, was aware of.
- 8.5. We note that the duration of Basic Training has varied widely over the years and is now far more extensive than it was in 1990 - 2010 (the pertinent period for many of the Applicants). Post Office refers to the current routine provision of two weeks' training for Subpostmasters. Many Applicants have reported in their CQRs that they received fewer than two days' training and were simply handed Operating Manuals for self-study and to train their counter staff.

- 8.6. Post Office's Trainers, and in some cases Applicants' Line Managers, do not seem to have been well regarded by many Applicants and appear to have been considered particularly weak when dealing with ATMs; Lottery processing; Motor Vehicle Licences; Foreign Currency and other specialist products.
- 8.7. Subpostmasters are responsible for training and supervising their own staff and Post Office has no responsibility to train staff, other than in Crown Offices. Post Office does provide Subpostmasters with relevant training materials for themselves and their staff, but it does not operate a quality control function in order to ensure that this further training is properly delivered. We found that further training for Subpostmasters was predominantly delivered in response to user demand, rather than being determined by Training Needs Analysis.
- 8.8. We recognise the complexity of the current product range and question whether a counter process involving over 170 products, operated by more than 68,000 staff, of vastly differing levels of intellect, experience, numeracy and attention to detail, can ever be expected to work well without a fully effective and comprehensive training and support regime.

9. The Helpline

- 9.1. Many Applicants' CQRs have included examples where the Post Office's Helpline has failed to provide worthwhile support when called. The relevant call log (when available) often does not provide sufficient detail about exactly what advice was provided in order for us to form evidence based conclusions. Specific criticisms include:
- a) difficulty in contacting the helpline due to its limited availability;
 - b) unhelpful, script-based, responses;
 - c) many calls, including those seeking help on balancing problems and discrepancies, were afforded 'Low Priority' by the Helpline staff; and
 - d) instructions received during one call that are said to have later been countermanded, sometimes months later, by another.
- 9.2. A frequently recurring response by the Helpline, relating to shortfalls, is said to have been:
- "don't worry about it, it will sort itself out"*.
- 9.3. Many Applicants have reported that problems did not sort themselves out, nor was any indication given by the Helpline as to how long they should wait before realizing that a problem that had not sorted itself out would probably not now do so, nor how they were supposed to balance the books during the intervening period.

10. Limitations in the Transactional 'Audit Trail'

- 10.1. Many Applicants have claimed that, whilst acknowledging some errors were caused by their own mistakes, they were often unable to determine the root causes of discrepancies (both

shortfalls and surpluses) reported by Horizon, because the underlying transaction data was not available to them.

- 10.2. Post Office controls the Horizon infrastructure including back-office accounting and reporting functions. A consequence of this is that Post Office may hold Subpostmasters accountable for shortages that they are unable to fully investigate due to a lack of access to data. A Subpostmaster has very limited options in these circumstances and often has to make good losses even where the underlying root cause has not been established or understood.
- 10.3. The concerns fall broadly into three areas:
- a) data that isn't available even on the day of the transaction;
 - b) data that was at first available, but after 42 days (later extended to 60 days following a system change by Post Office) is no longer available; and
 - c) data that isn't available after suspension.
- Data that isn't available even on the day of the transaction**
- 10.4. Applicants' concerns principally relate to transaction types where Horizon produces, at the end of day, only an *aggregate amount and volume* for that day's transactions. These transaction types are those where customers have paid for goods or services by Debit or Credit Card.
- 10.5. In the event of an end-of-day discrepancy for one of these transaction types, and without the benefit of a *disaggregation* of a total amount into its constituent transactional components, Applicants found it difficult, if not impossible, to identify the individual transaction(s) that brought about the discrepancy.
- 10.6. Typically, a Subpostmaster would need to find items:
- a) that should have been, but were not, included in the aggregate total; or
 - b) amounts that had been incorrectly entered, such as £50.00 entered as £500.00, £39.00 entered as £93.00, a withdrawal processed as a deposit; or
 - c) amounts that formed part of the aggregate total, but should not have been included in that total at all.
- 10.7. Only by finding those errors and omissions could Subpostmasters begin the process of correction and loss mitigation. This may sometimes have involved attempting to contact the relevant customer, but in order to do that they needed not only to identify the incorrect or missing transaction, but also to know the name, and perhaps also the address, of the relevant customer.
- 10.8. Many Applicants have told us that, prior to the introduction of Horizon, it was easy to do this since the paper dockets retained to evidence each transaction provided this information. It is regrettable that the Horizon system does not provide the same functionality as the previous manual system.

Data that was at first available, but after 42 days (later extended to 60 days) is no longer available

- 10.9. The main concern expressed about data availability, is the need to go back to a previous period in the event that a Transaction Correction (TC) was issued by Post Office a long time after the transaction (to which the TC relates) was erroneously input into, or omitted from, Horizon. TCs are issued for different reasons and different products may be treated in different ways. If the delay in issuing the TC exceeds 42 days (now 60 days), the Subpostmaster may no longer have data readily available with which to respond to the TC and may have no practical alternative other than to accept it. We have been told that if further data was requested from Post Office, such requests were often rejected on cost grounds. We are also aware that the difficulty in printing and examining Horizon's 8cm wide 'till rolls' was a significant issue in locating the transaction(s) that had created discrepancies.

Data that isn't available after suspension

- 10.10. Applicants have reported that their ability to investigate transactional discrepancies, or to defend themselves against allegations made by Post Office, were often thwarted because, following their suspension (usually on the day of an Audit) they were, as a matter of Post Office policy, denied access to the Branch. In many instances we have been advised that Post Office Investigators also removed records, often including personal documents such as diaries in which Applicants had noted problems that had occurred; to whom they had reported those problems; what advice and instructions they had received and what had resulted from following that advice or instructions. Applicants have also reported that, despite their requests, they never regained access to any of the records they needed to prove their innocence.

11. Transactions not entered by the Subpostmaster or their staff

- 11.1. Many Applicants have reported that Horizon transactions appeared to have been entered, or cash or stock balances changed, when the branch was closed and no one had access to any of the Horizon terminals.
- 11.2. Post Office has confirmed that it is not, and never has been, possible for anyone to access Branch data and amend live transactional, cash or stock data without the knowledge of Subpostmasters or their staff. However, we are aware that certain error recovery and correction processes can result in transaction reversals that carry the System Identity (ID) of the branch employee who entered the originating transaction that the system itself is reversing, or the ID of the employee restarting the system (see 'Transaction Reversals'). We note that this fails to easily differentiate between entries made by a user and those that are system generated. Enquiries on these matters are continuing.

12. Transaction Reversals

- 12.1. As mentioned above, a number of Applicants have reported transactions that appear to have been input when the branch was shut and no one had access to the Horizon terminals.

12.2. A few Applicants have reported that they had entered an original transaction, but had not entered the reversal of that transaction. Rather, the Horizon system appeared to have generated a transaction reversal, without their knowledge or their intervention.

12.3. This matter was also highlighted in a report by Helen Rose, Post Office Security - Fraud Analyst - dated 12 June, 2013:

"... it is just that I don't think that some of the system based correction and adjustment transactions are clear to us on either credence or ARQ logs."

"However, my concerns are that we cannot clearly see what has happened on the data available to us and this in itself may be misinterpreted when giving evidence and using the same data for prosecutions"

12.4. N.B. 'Credence' is a Post Office Management Information Reporting System and 'ARQ logs' is a reference to a request for Horizon information archived through the 'Audit Retrieval Query' process. Enquiries on this issue are continuing.

13. Cash and Stock Remittances (Rems) in and out of the branch

13.1. A number of Applicants have raised issues concerning 'Rems'.

13.2. 'Rems' are inward and outward remittances of stock or cash (including foreign currency). Large amounts of cash and stock are routinely sent to and from branches using this process. Robust procedures are in place to ensure that the process normally operates reliably and that errors, or theft, are rapidly detected.

13.3. Occasionally however, branches will report that a Rem 'pouch' was not received or that it contained fewer items, or lower value, than the sender claimed. Similarly, Post Office will sometimes find that a Rem pouch sent by a branch is missing or its content has been overstated by the branch. Post Office deals with these discrepancies by issuing Transaction Corrections that show the details of the shortfall or overage. Because such discrepancies relate to physical items, it is necessary to rely on witness statements and other documentary evidence as to the exact content of Rem pouches.

13.4. Some Applicants have described instances of foreign currency shipments being accidentally sent to the wrong branch. We are aware that some of these errors have occurred due to Post Office's Business Partner for Foreign Currency (First Rate) using an incorrect delivery address. Clearly, this introduces the possibility that an Applicant might have been held accountable for a shipment that was never received by his branch.

13.5. Post Office is now carrying out further investigations into this matter.

14. Missing Cheques

- 14.1. As with other outward Remittances (see **Cash and Stock Remittances (Rems)** in and out of the branch above), branches 'Rem' to Post Office's main processing centre (in Chesterfield) all cheques that the branch has taken in each day. These are put together into 'Stripey' envelopes and collected by the Royal Mail after each day's cut-off time.
- 14.2. For almost all of the cheques that Post Office handles each day, everything normally goes smoothly, but some cheques do get lost or are accidentally spoiled either within the branch or at Chesterfield, while some envelopes get lost in transit.
- 14.3. We have also been informed that it is possible for cheques to get damaged in Post Office's cheque processing equipment and therefore not be processed. In such cases, if the cheque is so badly mutilated as to be unreadable, the possibility arises that a branch might be charged, through the TC process, for a missing payment even though the cheque had been sent to Chesterfield. Also, where a customer's cheque 'bounces', it will be charged back to the branch if the branch staff failed to follow Standard Operating Procedures. Post Office has stated that it will attempt, where possible, to obtain a replacement cheque from the customer.
- 14.4. Assertions have been made by some Applicants that customers' cheques (received in exchange for goods or services rendered at the counter) never cleared and they were held accountable for the value of those missing cheques. Post Office has told us that there have been no examples of this occurring and, in due course, Post Office will have an opportunity to respond to several specific examples cited by Applicants. Enquiries on this matter are continuing.
- 14.5. Some Applicants have complained that the TC process was sometimes so slow (in regard to cheques) that, by the time they had been advised that a cheque had been lost, mutilated or returned by the paying bank, all chances of mitigating their loss were gone.
- 14.6. Post Office has confirmed that Subpostmasters will not be held liable for cheques lost in transit and that, if all required procedures have been correctly followed, they will not be held liable for cheque-related losses.

15. Pensions and Allowances

- 15.1. A few Applicants have reported problems with Pensions and Allowances where Post Office's Investigators made allegations that they, or their branch employees, had stolen money by fraudulently manipulating Pension and/or Allowance payments. The allegations were that amounts had been recorded as having been paid out when they were not (overclaims) or where Green GIRO cheques or Pension & Allowance dockets had been re-used (reintroductions).
- 15.2. Post Office has responded to our request for background information to help us better understand and put into context the fraud that Post Office had alleged was happening in those branches.

- 15.3. Our purpose, in seeking this background information was to clarify how these types of fraud may have been perpetrated and how Post Office identified those responsible. We needed to explore the possibility that Applicants, who had been accused by Post Office of fraud but not ultimately convicted of it, but who had in some instances been required to repay the allegedly stolen funds, might have themselves been the innocent victims of a far larger 'pattern' of fraud.
- 15.4. Post Office pointed out that "*it only prosecutes cases which merit prosecution and does so always on legal advice*" and noted that the vast majority of the cases it takes to court involving reintroduction fraud, result in successful prosecutions.
- 15.5. Post Office's response described the way that overclaim and reintroduction fraud can be perpetrated and how the relatively easy to manipulate dockets have since been replaced by the more secure 'Post Office Card Account' (POCA) which uses 'Chip and PIN' technology. However, Green GIRO cheques are still in use by customers who have lost their POCA cards and by those on temporary benefits.
- 15.6. It is clear that, while overclaims can arise as a result of errors innocently made in a branch (e.g. by forgetting to remit a voucher), reintroductions involve a positive decision to re-process a benefit pay-out even though the genuine transaction with the customer has already occurred. Post Office concedes that reintroductions can happen by accident, but the Subpostmaster would still be liable for such errors and it regards multiple reintroductions as being indicative of fraud.
- 15.7. Post Office has concluded that no 'pattern' of fraud exists, and we will now examine each of these cases on its merits. Further enquiries on this matter are therefore continuing.

16. Surpluses

- 16.1. As stated in the section above dealing with **The Contract between Post Office and its Subpostmasters:**

"surpluses may be withdrawn provided that any subsequent charge up to the amount withdrawn is made good immediately".

- 16.2. Post Office defines discrepancies as including both surpluses and deficits. We believe that the cause of all material discrepancies should be investigated and corrected. This should include consideration that discrepancies could be caused by the system itself, or by errors occurring outside of the branch. It is only by doing this that the underlying root cause of the discrepancy can be established.
- 16.3. Feedback from Applicants has demonstrated to us that the preliminary investigative assumption adopted by Post Office appears to be that discrepancies are usually caused by errors or problems at the counter and or by theft. Post Office's confidence in the Horizon system remains very high and as such, the system itself will normally be discounted as a source of error.

- 16.4. In inputting data into Horizon it is possible that errors are made that generate a surplus, unbeknown to the customer or third party. Another cause of a surplus could be the underpayment at the counter to a customer, although this is more likely to be detected.
- 16.5. We understand that although surpluses are expected to be retained by the Subpostmaster it is possible to hold them in suspense by 'settling centrally' so that future shortages and Transaction Corrections could be offset against them. Many Applicants appear not to have been aware of this facility.
- 16.6. The failure to investigate and correct material discrepancies is perhaps unique to Post Office's Business Model. Unlike commercial entities that do not operate on an agency basis, Post Office has had little commercial incentive to seek the root causes of discrepancies as the burden of cost (and risk) is being carried in most instances either by its Subpostmasters, in the case of shortfalls, or by its customers or Post Office Clients, in the case of surpluses.

17. 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

- 17.1. Mistakes can occur if the counter clerk accidentally touches the 'DEPOSIT' icon on the screen instead of the adjacent 'WITHDRAWAL' one, thus generating a deficit of twice the size of the customer's withdrawal. Such errors by branch staff can be difficult to isolate from the system-produced totals of card transactions (see *Limitations in the Transactional 'Audit Trail'* above) unless the customer notices his windfall and then tells the branch about it. Absent such customer honesty and diligence, shortages brought about by such mistakes are very difficult to isolate and recover.

Other counter errors that benefit customers at the expense of the Subpostmaster

- 17.2. We have been made aware of cases where Applicants have been held accountable for shortages that have arisen through what Post Office refers to as "*errors made at the counter*" and where customers have profited at the expense of the Subpostmaster.
- 17.3. Where a customer has received cash or goods and later discovered that their bank account has not been debited or their card account has not been charged, it is quite possible that they may keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.
- 17.4. In mid-2008 the method of processing receipts into Giro Bank accounts was changed. Previously, customers completed a two-part paying-in slip. One copy of the paying-in slip was retained by the customer, another was retained in the branch and cross-referenced to the entry made on Horizon.
- 17.5. Prior to the mid-2008 processing change, the Subpostmaster would have been able to identify the amount of cash that had been recorded in the system by cross-checking with the

paying-in slip. Hence, a correction could have been actioned and the branch's books brought back into balance. In such a case, the apparent cash shortage would have been eliminated because the audit trail enabled the specific cause of the shortage to be identified and corrected.

17.6. However, after the processing change, paying monies into Giro Bank accounts was actioned via swipe cards and one-part paying in books with no supporting documentation being retained in branch.

17.7. After that processing change, the counter clerk would swipe the customer's card to access the account details and then key in the cash deposit. After inputting the deposit, the system printed out just one copy of a receipt (which specifically states on it "*NOT TO BE RETAINED*") and this was then passed back to the customer along with their swipe card.

17.8. It follows that, if the counter clerk did not immediately spot an error, any later balance would show a difference between the cash holdings on Horizon and the actual cash holdings. However, after the processing change, there would be no supporting documentation available either to the Subpostmaster, or to Post Office centrally. Therefore neither the Subpostmaster nor the Post Office's central processing unit would be able to check whether or not the cash deposit entries on the system reflected the actual amount of cash that had been deposited.

18. Error and fraud repency

18.1. Normally, when a business detects errors or fraud occurring repeatedly, investigative and analytical work will be carried out to determine whether changes to its Standard Operating Procedures, to its hardware or software, or to its employee training, should be made so as to reduce the likelihood and/or seriousness of future recurrence. This process of investigation and analysis generates, over time, a '*Virtuous Circle*' of detection, loss mitigation and process correction/improvement which builds the entire system's robustness and efficiency.

18.2. In not fully investigating "*errors made at the counter*", even where it is obvious that some of those errors have been systematically repeated in a branch, or even across the Network, Post Office seems not to taken 'ownership' of finding ways to reduce (or manage) those errors.

18.3. This has led to a situation where Subpostmasters have been bearing the cost of losses caused by errors and fraud that could possibly have been designed out of the system, or where improved operational procedures and training could have reduced the incidence and severity of errors made at the counter.

18.4. A good example is an issue that has been raised by Applicants in regard to Giro transactions. This relates to Horizon operating in Recovery Mode, for example following power or telecommunications failures that resulted in the branch terminals freezing. In these situations the system goes through a complete reboot, then, when it has finally rebooted, a message appears on screen asking "*do you need to recover any Giro transactions?*".

- 18.5. A few Applicants have reported, when faced with that question, they usually did not have sufficient information to know whether or not the system needed to recover any Giro transactions. If they responded in the affirmative, the system asked for the details of the Giro transactions that needed to be recovered. As the user did not have the relevant details to hand (and could not access the data as Horizon was still completing its reboot process), they were forced into responding in the negative and hoping that was the correct response. This often resulted in the 'wrong' answer being entered and transaction errors being generated.
- 18.6. The following key question, that arises from the above observations, is:
- "Is Horizon fit for purpose?"*
- 18.7. In trying to answer this difficult question, we recognise that, in the vast majority of cases, Post Office's Subpostmasters operate their branches year after year with minimal reported problems. For them, the Horizon system appears to be *"fit for purpose"*.
- 18.8. References here to *'the Horizon system'* are mainly focused on *'Horizon On Line'*, which evolved from the original Horizon application. Our comments encompass not only the system itself but also supporting processes and procedures. However, some comments received relate to earlier versions of the system, a number of enhancements having been made following user experience and feedback.
- 18.9. For the Horizon system to be considered fully *'fit for purpose'* for all users it would need to accurately record and process, with a high degree of error repellency, the full range of products and services offered by Post Office, whilst providing a clear transaction audit trail allowing easy investigation of any problems and errors that arise. The cases that we have reviewed demonstrate that this design objective has not always been achieved although some improvements do continue to be made.
- 18.10. A fully effective system would also need to be able to cope with a diverse collection of end users and operate in areas where power and telecommunications reliability could not be taken for granted. The cases that we have reviewed show us that errors are more likely to occur when unusual sets of circumstances and behaviour are present. We have little doubt that branches with unreliable hardware or poor telecommunication and power supplies, appear to have suffered a disproportionate incidence of problems.
- 18.11. We have also come to the conclusion that some of the people appointed by Post Office as Subpostmasters may have been unsuited, from the outset, to the ever-increasing complexity of running a computerised branch. These include those who:
- a) were relatively (or even in some cases totally) new to using a computer;
 - b) had insufficient time and knowledge to be able to investigate and resolve shortages without quality support and assistance; and
 - c) relied upon staff whom they may have 'inherited' from the prior Subpostmaster and who were either careless, inadequately trained or even dishonest.

18.12. Where a person, who was either unsuitable, inexperienced or inadequately trained, was faced with problems, perhaps associated with hardware or telecommunications failures and the system's resultant restart and recovery procedures, it was at that moment that an otherwise repairable situation often turned into a catastrophe. For them, and in those specific circumstances, Horizon could not be described as "*fit for purpose*".

19. One-sided transactions

19.1. Many Applicants have raised concerns regarding transactions involving debit or credit cards where Horizon has processed a transaction but the corresponding charge to the customer's bank account appears not to have been processed. In other cases the opposite situation occurred, where Horizon rejected (or appeared to have rejected) a transaction, but the corresponding charge to the customer's bank account apparently was processed.

19.2. One possible cause for this might be that telecommunications failures have occasionally prevented one side of a transaction being processed whereas the other side of it has been processed properly.

19.3. These transaction processing failures would be less troublesome if they were always detected, at the counter ideally, or later by additional control and reconciliation processes carried out by the Subpostmaster or by Post Office itself.

19.4. It is however not yet clear whether Post Office's in-house (after-the-event) reconciliation processes can be relied upon to always detect any one-sided transaction that the Subpostmaster fails to detect.

19.5. Where a customer has been charged for something that he has not received, there is a very high likelihood that he will detect this (for example if he receives a Final Demand for a bill that he believes he has paid) and will complain. On the other hand, where the opposite has happened, and a customer has received cash, or goods, and his bank account has not been debited or his card account has not been charged, it is perfectly likely that he will be unaware of his windfall or will simply keep quiet about it, leaving the Subpostmaster to be held accountable for the resultant shortfall.

19.6. It is important to understand that, where that sort of error occurs, no evidence of it is visible to the Subpostmaster *unless the customer discloses it*.

19.7. We have provided Post Office with examples of one-sided transactions and our enquiries on this important point are continuing.

20. Hardware issues

- 20.1. An examination of the hardware in use in a typical branch reveals that much of the equipment appears to be quite old. In some cases it was first put in place more than ten years previously.
- 20.2. There also seems to be little routine hardware maintenance. Instead, faulty equipment is replaced as and when needed. This process is referred to as "*kit swap outs*" and principally involves the replacement of broken units with reconditioned ones. Reports of several reconditioned components or units being tried, and failing, before a working one is found, are not unusual. This is because much of the bespoke equipment used by Horizon is no longer manufactured. The most commonly raised issues concern printers, PINpads, touch screens, telecommunications equipment and base units.
- 20.3. Many Applicants believe that faulty equipment could be responsible for otherwise unidentified shortages. Post Office's position on this is that it cannot happen. Enquiries on this point are continuing.

21. Post Office Audit Procedures

- 21.1. In many cases Applicants have told us that they were not given copies of the Audit Reports relating to their branches and that their enquiries to Post Office, in respect of those Audits, were never answered.
- 21.2. It is clear that Post Office's current practice is that each Subpostmaster is provided with a copy of the Audit Report for his branch. We do not know when this current practice was adopted or whether a similar policy applied in prior years.

22. Post Office Investigations

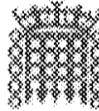
- 22.1. As a result of our investigations we have established that Post Office's investigation team has, in many cases, failed to identify the underlying root cause of shortfalls prior to initiating civil recovery action or criminal proceedings. This includes cases where Applicants brought to the Auditors' or Investigators' attention their own suspicions as to the underlying root causes.
- 22.2. Many Applicants, and almost all the Professional Advisors, assert that there was inadequate investigation prior to suspension (without pay); termination; or civil/criminal action.
- 22.3. Based on the cases examined so far, Post Office's investigators seem to have defaulted to seeking evidence that would support a charge of False Accounting, rather than carrying out an investigation into the root cause of any suspected problems. Evidence to support a charge of False Accounting is often easily obtained since, when confronted during interview with evidence of obviously over-stated cash figures, the accused person will often readily admit to falsifying the end of Trading Period Accounts.

- 22.4. With the exception of an interview conducted in accordance with the Police and Criminal Evidence Act (1984) we note that the interviewee is not allowed to be legally represented, although they may be accompanied by a 'friend', albeit with very limited powers.
- 22.5. Interviews will usually be recorded and, when an admission has been made, this will virtually always trigger a 'Guilty' plea by the defendant and often an associated repayment proposal. As a result, Post Office investigators seem to have found that recording admissions of False Accounting was the key to achieving relatively rapid, and (to Post Office) inexpensive, asset recovery.
- 22.6. As a consequence of this, Post Office's investigators seem to have de-emphasized the importance of unearthing the true root causes of the "mysterious shortfalls" that Applicants claimed to have suffered. Even when faced with requests from Subpostmasters for investigative help, this has often been refused. Regrettably, this refusal to provide investigative support is in line with the Standard Contract.
- 22.7. It is clear from comments made by Applicants, that this was clearly contrary to their expectations and that they were unaware that, under Section 19, Paragraph 12 of the Standard Contract, the Post Office Investigation Division (POID) does not have a mandate to provide general investigative support to Subpostmasters.
- 22.8. Post Office's instructions to (and training of) its Investigators seems to have disregarded the possibility that the Horizon system could be in any way relevant to their investigations. A consequence of this flawed approach to investigations is that many opportunities for process improvements have been missed.

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From: The Rt. Hon. James Arbuthnot, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

17 September 2014

Paula Vennells
Chief Executive
Post Office
148 Old Street
London EC1V 9QN

Dear Paula,

Alan Bates telephoned my office today following the Working Group meeting which I believe was held earlier this week. He expressed concern about how the meetings were proceeding and mentioned that three solicitors were present during the last one, all from the Post Office's side. I wonder whether this has the effect of interfering with what is meant to be an independent group? Might you think about making these meetings a little less 'lawyerly'?

Also, might you let me have an answer to my letter of 4 September 2014 to you please about meeting with my colleague Jim Hood MP and myself?



Cc: Sir Anthony Hooper, Alan Bates

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Initial Complaint Review and Mediation Scheme

Reply of Post Office Limited to Second Sight's Briefing Report – Part Two

22 September 2014

This Reply is confidential and is not to be disclosed to any person other than a person involved in the processing of Applicants' claims through the Scheme

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Introduction

- 1.1 As part of the Initial Complaint Review and Mediation Scheme (the Scheme), Second Sight is engaged as a firm of forensic accountants to provide a logical and fully evidenced opinion on the merits of each Applicant's case.
- 1.2 On 21 August 2014, Second Sight's Briefing Report – Part Two (the Report) was sent as a confidential document to a number of Applicants and their advisors, as well as to Post Office. The purpose of the Report was to describe and expand on common issues identified by Second Sight as being raised by multiple Applicants (a thematic issue). The aim being to provide general information that could then be applied in specific cases.
- 1.3 Post Office has been unable to endorse the Report. It wrote to recipients of the Report immediately after its release setting out its reasons for this and committed to set out its detailed position on the issues raised in the Report. In the interests of transparency and with the overriding aim of assisting the resolution of complaints brought under the Scheme, Post Office has prepared this Reply in order to correct inaccuracies in the Report and to provide information that the Report omits.
- 1.4 The body of this Reply provides Post Office's detailed comments on each section of the Report. There are however a number of issues that reoccur throughout the Report which are summarised below.

Lack of thematic issues

- 1.5 A number of sections in the Report do not identify a thematic issue which could be of general application to multiple Applicants as opposed to matters that need to be addressed on a case by case basis. Where this arises, Post Office will address those issues in its case specific Investigation Reports.
- 1.6 Of the 19 sections in the Report, 9 sections do not identify a thematic issue namely sections 6, 7, 11, 12, 13, 14, 15, 19 and 20.

Absence of conclusions

- 1.7 The majority of the cases in the Scheme turn on there having been a loss in a branch for which an Applicant was held liable. For a thematic issue to be of utility, it must help explain why a loss may have arisen or been attributed to an Applicant. The Report is largely silent on

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this critical issue. As it stands, there are a number of topics in the Report where *"enquiries are on-going"*. A number of other sections set out the competing views of Applicants and Post Office but offer no view on whether either parties' position is to be preferred.

- 1.8 Of the 10 sections that identify a thematic issue, 5 do not reach a conclusion, namely sections 8, 9, 16, 17 and 21. A firm conclusion would have assisted Applicants and Post Office.

Scope

- 1.9 The scope of the Scheme is to consider matters *"concerning Horizon and any associated issues"*. Matters such as the Subpostmaster contract and other legal matters are not within the scope of the Scheme and are outside Second Sight's professional expertise.
- 1.10 The Report goes beyond the scope of the Scheme and Second Sight's expertise in sections 4, 18 and 22.

Missing evidence

- 1.11 The Report lacks in a number of places supporting evidence, source documents, examples or statistics to substantiate the conclusions it draws. It does not describe the overarching methodology used to examine the weight of evidence from different sources - this is most important where the information provided by Applicants is anecdotal and has yet to be investigated and tested.
- 1.12 At the time the Report was completed, Second Sight had investigated 21 cases submitted to the Scheme and completed final Case Review Reports in 10 cases. Second Sight has received information from the approximately 150 Applicants to the Scheme, whereas in total there have been more than 450,000 users of Horizon since its inception in 2001. The Report is therefore based on the tested views of only 0.03% of all Horizon users and cannot therefore be said to reflect general user experience.
- 1.13 The 2 sections of the Report that do, in fact, reach findings on thematic issues within the scope of Second Sight's expertise, (sections 5 and 10), are both unfortunately unsupported by tested and credible evidence.

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This Reply

- 2.1 It is recommended that the reader familiarises themselves with Second Sight's Briefing Report - Part One (the Part One Briefing) which provides background information on Post Office's processes and procedures. This Reply builds on the information in the Part One Briefing
- 2.2 Care should be taken when seeking to apply the Report's findings and this Reply to individual cases since the extent to which they may or may not apply will very much depend on their specific circumstances.
- 2.3 In this Reply:
- References to paragraphs and sections are to paragraphs and sections of the Report unless stated otherwise.
 - "Applicant" means an applicant to the Scheme whereas "Subpostmaster" means Subpostmasters in general, whether or not they have applied to the Scheme.
 - For ease of reference, where reference is made below to "Subpostmasters" or "Applicants" taking action in a branch, this action could, in most circumstances, also be taken by a Subpostmaster's assistant.
 - All other capitalised terms are defined in the Part One Briefing.

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Overview of Post Office's position

- 3.1 Nearly all Applications to the Scheme centre on there being a loss of cash from a branch that the Applicant does not consider that they caused or are liable for. The purpose of this Reply is to help identify those issues that can cause such a loss and those that cannot.
- 3.2 In order to identify a loss of physical cash, an investigator needs two pieces of key information:
 - a. How much cash should be in the branch as a result of the transactions processed in the branch. This information is provided by the branch accounts stored on Horizon.
 - b. How much cash is actually in the branch. This is known by conducting a physical count of the cash on hand.
- 3.3 Any difference between the above two figures generates a "discrepancy" which may either be a shortage or a surplus.

Controlling the branch accounts

- 3.4 If cash is missing, the first stage of the investigation is to identify the day on which the cash went missing. The transactions for that day can then be reviewed for anomalies (see section 10 of the Part One Briefing) eg:
 - Transactions incorrectly recorded (such as withdrawals recorded as deposits).
 - Values incorrectly entered (e.g. entering £2000 instead of £200).
- 3.5 This is done to determine if the branch has made errors that would make the branch accounts inaccurate. This review must be done by the branch staff as only they will know the transactions done on that day and may recall the correct transaction details. Many branch errors (including the two examples above) are most easily identified in branch. They would not be evident to Post Office unless a complaint was made by a customer.
- 3.6 Post Office helps correct branch errors where possible by reconciling Horizon records against data collected on some transactions by third parties such as banks and government departments. Where Post Office detects an error through this reconciliation process, it issues a Transaction Correction to a branch notifying them of the error and correcting the branch accounts.
- 3.7 It has been alleged by some Applicants that they have been issued Transaction Corrections even when they were not at fault. Transaction Corrections are only issued where there is

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clear evidence of an error in branch. Where the cause of loss rests with Post Office or a third party client Post Office absorbs that cost and it is not passed back to branch. This principle underlies the design of Horizon and all Post Office's back office and reconciliation processes.

Controlling cash movements

- 3.8 Save when it conducts an audit, Post Office does not have any direct knowledge of what physical cash is actually in a branch – only Subpostmasters have this information. For this reason, branches are required to:
- Count the amount of cash in the branch daily and record this figure on Horizon as a cash declaration.
 - Count all cash and stock at the end of each trading period and record these figures on Horizon before making good any discrepancies¹.
- 3.9 If daily cash declarations are not made by a branch or declarations are made falsely (by declaring that there is more cash in the branch than there actually is) then it is impossible for Post Office, and will be very difficult if not impossible for a Subpostmaster to:
- Know if cash is missing;
 - Identify the days on which cash has gone missing;
 - Identify which member of staff may be the source of errors; or
 - Locate the erroneous transactions that were the cause of a loss.
- 3.10 Daily accurate cash declarations are the most critical aspect of branch accounting, without which losses of cash, go unchecked.
- 3.11 For this reason, it is critical that Subpostmasters make accurate daily cash declarations as a fundamental requirement of their contract with Post Office. Subpostmasters habitually failing to make cash declarations may find their contracts terminated. Post Office also prosecutes those Subpostmasters who dishonestly make false cash declarations. It is not an excuse to say that a Subpostmaster was poorly trained or received inadequate support in this regard. The need for daily cash declarations is known by all Subpostmasters and is easily done – there is no specialist training or support required (albeit that both are provided or available). Post Office does not accept that there are any circumstances capable of justifying committing the criminal offence of rendering a false account.

¹ See paragraph 8.3 of the Part One Briefing regarding "making good" errors.

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- 3.12 In the context of the Scheme, there are a number of cases where accurate cash declarations have not been made. Many of these Applicants have challenged Post Office to identify the cause of losses in their branches which they had hidden by falsely accounting. As explained above, identifying the specific source of the losses is not possible where an Applicant has failed to follow the simple but critical task of making accurate daily cash declarations.
- 3.13 Subpostmasters are contractually liable for any losses hidden or caused by their inaccurate record keeping whether due to error, dishonesty or otherwise. It is also a well-established common law principle that an agent (e.g. a Subpostmaster) is liable to pay to his principal (e.g. Post Office) any sum declared in his accounts.

Responsibility for losses

- 3.14 A number of Applicants have accused Horizon of inaccurately recording the transactions processed at their branch which they say shows that they were not liable for the losses in their branches. To date Post Office has been provided with no evidence by either an Applicant or in the Report of Horizon's failure to record transactions accurately.
- 3.15 The Report looks to identify thematic points where Second Sight considers that Horizon may be flawed. However, these points are either ill-explained, un-evidenced or are proven not to be the cause of losses in branches.
- 3.16 Absent any doubt over the integrity of the branch accounts produced by Horizon, Post Office considers it fair to assume that if a loss has occurred then it has been caused in the branch and is something for which, in most circumstances, a Subpostmaster is liable to make good. This reflects the core tenet of the Subpostmaster Contract that Subpostmasters are liable for any loss caused by their carelessness, negligence, dishonest conduct or error.²
- 3.17 Post Office remains committed to fully and open-mindedly investigating every allegation made about Horizon through the Scheme. It is in its interest as well as the interest of the 6,000 serving Subpostmasters who have not applied to the Scheme to identify an issue if one exists. However, Post Office is confident that there are no systemic problems with branch accounting on Horizon and all existing evidence overwhelmingly supports this position.

² Clause 12, Section 12

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Post Office's response to section 4 – The Contract between Post Office and Subpostmasters

- 4.1 Section 4 of the Report concerns the contract between Post Office and Subpostmasters dated September 1994 (as revised over the years) (the Contract). It considers (1) the potential impact of some of the terms and conditions and (2) issues relating to notification of the Contract terms to Subpostmasters.
- 4.2 An assessment of the Contract is outside the scope of the Scheme which was to consider "*Horizon and associated issues*". Second Sight has no mandate to consider the Contract and the Report contains a number of statements that are incorrect. Second Sight are not lawyers, but forensic accountants, and any assessment of the Contract can only be undertaken against legal principles. For this reason, no weight should be placed on this section of the Report as it reflects only Second Sight's lay opinion on matters where they have no expertise.
- 4.3 To help avoid potential confusion, Post Office sets out the correct position in respect of the Contract below.

Impact of selected terms and conditions

- 4.4 At paragraph 4.5 the Report sets out selected sections of the Contract. Whilst these provisions do reflect the terms and conditions as stated within the Contract these are selective and not reflective of the Contract as a whole. In addition, the Report does not appear to take account of other documentation that is incorporated into the Contract such as manuals, booklets and operational instructions issued by Post Office from time to time.

Fairness of the Contract

- 4.5 Paragraphs 4.4 and 4.6 both make the same conclusion that "*from a business perspective*" the contractual provisions referred to above (in particular Section 12 requiring the Subpostmaster to make good losses) operate to the detriment of, and are unfair to, a Subpostmaster.
- 4.6 The Contract is a business to business arrangement. Save in a few very narrowly defined areas (which are not applicable here), there is no general principle at law of whether the Contract is "fair" or not. The Report makes no reference to any other similar agency agreement or benchmarks that may provide a view on what is common practice. In Post Office's experience, the terms of the Contract are broadly similar to those used in franchising arrangements across the UK.

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- 4.7 In any event, Subpostmasters are agents and Post Office is their principal. At law, agents owe duties to their principals including the duty to act in good faith, to render accurate accounts and to make good any losses they cause. Section 12 of the Contract simply reflects these legal principles.
- 4.8 The Contract reflects the basis on which Post Office and thousands of Subpostmasters have successfully conducted business for decades commercially, and is neither commercially nor legally unfair. At a number of points the Report has alluded to "duties" on Post Office that do not exist in the Contract. It is not now open to seek to retrospectively change the contractual foundation of the relationship between Post Office and Subpostmaster.

Subpostmasters' understanding of the Contract

- 4.9 The Report suggests that Subpostmasters may not have reviewed or fully understood the terms before entering the Contract. As a result, the Report states, at paragraph 4.7, that Subpostmasters are unable to mitigate "risks" that they may face. Post Office disagrees with this conclusion. In addition, this conclusion is not supported by any evidence.
- 4.10 The Contract that is entered into between Post Office and Subpostmasters is done so freely and at arm's length. Ultimately, it is for the Subpostmasters to choose whether they enter into the Contract or not.
- 4.11 The Report provides no evidence that Subpostmasters do not understand the Contract. If the view being taken in the Report is from a business perspective (whether Post Office or a Subpostmaster) the provisions are very clear and written in plain English.
- 4.12 In any event, it is a well-established legal principle that a person who agrees to a contract is bound by its terms even if he does not have a copy of those terms, has not read them or does not understand them. Post Office cannot be responsible for a Subpostmaster who may not have taken the time to read the Contract.
- 4.13 The Report also notes that Post Office does not recommend that Subpostmasters take legal advice. There is no obligation on Post Office to make this recommendation. It is however open to any Subpostmaster to take legal advice on the Contract at any time.

Notification to Subpostmasters of the Contract terms

- 4.14 Paragraphs 4.8 to 4.11 state that Post Office does not provide a copy of the Contract to Subpostmasters. This appears to be based on the fact that a Subpostmaster does not recall

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receiving the Contract or cannot produce a copy now. This does not mean that the Contract was not provided. Given the age of some of the cases in the Scheme, it is not surprising that recollections are hazy and that some records are now not available.

4.15 It is open to Subpostmasters to request a copy of the Contract throughout negotiations when seeking appointment and from Post Office's Human Resource Service Centre if they have misplaced or lost a copy. It is also Post Office's standard operating procedure to ensure that the Subpostmasters have a copy of the Contract no later than the day that they commence their position.

4.16 Paragraph 4.10 highlights that it is common practice for new Subpostmasters to sign an "Acknowledgement of Appointment" without a copy of the Contract. It is common practice that a separate document will be signed rather than the full Contract. As a point of law, terms and conditions can be incorporated into a contract by reference to another document that is not signed.

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Post Office's response to section 5 - Automated Teller Machines (ATMs)

- 5.1 Section 5 of the Report raises various issues concerning the accounting in branch for ATM transactions.
- 5.2 The Report does not clarify which precise part of the ATM accounting process is under consideration by Second Sight. In broad terms, the accounting process breaks down into three elements:
- a. Loading - Cash for the ATM is sent to the branch by Post Office and is loaded by the Subpostmaster into the ATM. This requires the recording of the ATM Cash as part of the branch's stock.
 - b. Cash dispensed - the amount of cash dispensed by an ATM is recorded daily on Horizon - see further below
 - c. Exceptions - rejected cash and retracted cash - see further below.
- 5.3 From the content of the Report, Post Office believes that Second Sight has focused primarily on the processes for the recording of cash dispensed from the ATM however other issues are touched on also.
- 5.4 In short, nothing in this section of the Report gives rise to any issue that could cause a loss of cash in a branch. The Report does highlight a few areas where Applicants have claimed to struggle with accounting for ATM transactions but the design of the accounting process and the safeguards put in place by Post Office mean that even a failure to account for ATM transactions will, save in a few minor areas (highlighted below), not cause a loss to a branch.

Out of sync / air gap

- 5.5 The Report focuses on the situation where cash is dispensed from an ATM. The process for accounting for dispensed cash is set out at paragraph 5.27 of the Part One Briefing. In short, on a daily basis (or on a Monday following a weekend) the Subpostmaster prints a receipt from the ATM showing the amount of cash dispensed. This cash dispensed figure is then entered into Horizon by the Subpostmaster.

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- 5.6 Simultaneously, the amount of cash dispensed is also automatically transmitted to BOI by the ATM. This means that there are two parallel records kept of the cash being dispensed by the ATM: one by the Subpostmaster on Horizon and one by BOI.
- 5.7 The Report notes that there are situations when these two systems can become "out of sync" with one another, with one record showing more or less dispensed cash than the other record. This could be caused by the Subpostmaster entering the wrong figure on Horizon.
- 5.8 What is not highlighted by the Report is that even if the amount of money dispensed by an ATM as recorded on Horizon by the Subpostmaster is different from the amount actually dispensed as recorded by BOI, therefore resulting in the records being "out of sync", this would not result in there being a loss to the branch. This is a pure accounting error by the branch.
- 5.9 There is a subsequent reconciliation of the Horizon figure against the BOI accounts. This means that any error on the Horizon account as to the amount of cash dispensed by the ATM would be picked up within a matter of days and corrected by way of a Transaction Correction to the branch.
- 5.10 As a result of this process, there is no difference in the amount of cash held on site. Indeed, the above accounting processes do not require anything to be done with the physical cash at all.
- 5.11 Simply because the accounts may be "out of sync" does not mean that there is a loss suffered by the branch. In summary, the air gap / out of sync issue cannot be a cause of loss in branch.

Complexity of accounting for dispensed cash

- 5.12 At paragraph 5.4 the Report states that the Post Office system for operating ATMs is "a complex arrangement, requiring greater human intervention... than that typically needed in most high street banks". The Report does not specify which part of the branch accounting process is considered more complex, however given the focus on the "out of sync" issues it seems that the Report is levying this allegation at the accounting process for dispensed cash (see above).

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- 5.13 The Report's conclusion is not supported by any evidence and does not outline the differences between Post Office's and a bank's processes save to say that banks' ATMs are fully computerised.
- 5.14 At various points, and particularly paragraph 5.18, the Report suggests that Applicants also found it difficult to account for cash being dispensed from ATMs. Little evidence is presented to support this view.
- 5.15 As described above, the ATM automatically records the amount of cash dispensed. The only part of the process that is manual is the need for the Subpostmaster to take the cash dispensed figure from the ATM and enter it into Horizon. Second Sight has adopted the phrase "*Air Gap*" for this manual interaction. As far as Post Office is aware, it is not a phrase used by any Applicant.
- 5.16 Within this accounting process, no calculation or counting is required – it is literally typing a single figure into Horizon on a daily basis. Given the absence in the Report of any explanation or justification for the view that this is "*complex*", Post Office does not accept that this process is "*complex*".
- 5.17 The Report appears to rely on a number of extracts from Post Office's Operations Manual to show that the above accounting method was too confusing for some Applicants. Paragraph 5.13 states that the "*out of sync*" problem described above, was commonplace prior to February 2008. However, the Report sets out the opinion, at Paragraph 5.15, that the instructions from the Operations Manual represents an example of the complex instructions and a cause of confusion. Paragraphs 5.13 and 5.15 are therefore a contradiction of one another – the first saying the problem pre-dated 2008, the other saying the problem resulted from the 2008 update.
- 5.18 The Report does not describe any instructions provided prior to the February 2008 Operations Manual or any subsequent updates. No assessment is made as to any change in the reporting of problems in relation to ATMs (and specifically not understanding the instructions) before or after the February 2008 Manual update and in particular whether or not there was an increase or reduction of the potential for errors. This fundamental assessment and consideration has not been made in the Report. Together with the fact that no evidence is provided to confirm how many Applicants did attribute errors to these (or any

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other) instructions, whether before or after February 2008, means there is no evidence to support the Report's view that the ATM accounting procedure was too complex.

ATM Support

- 5.19 The Report notes that Applicants have alleged that the Helpline repeatedly told them that in respect of the "out of sync" error the "problem would sort itself out". It also states at paragraph 5.19 that the advice from the Helpline was inadequate and misleading. There is no evidence provided to support either allegation. The advice provided needs to be assessed on a case by case basis as there is no evidence that there is a wider issue with the advice provided. It has not been shown to be a thematic issue.
- 5.20 Even if the advice provided was that an error would "sort itself out", in light of the reconciliation between Horizon and BOI (as described above) if there was an "out of sync" problem it would be corrected by a Transaction Correction. This would prevent the build-up of any accounting shortfalls. As explained above, there is no loss caused to a branch by an "out of sync" issue as the overall cash in branch relating to the ATM remains the same.
- 5.21 Overall, the assertion that the support provided was inadequate has not been supported by any evidence or logical reasoning.

Weekend trading

- 5.22 Paragraph 5.18, which considers trading over weekends, appears to have no relevance to the cause of losses on the ATM. Post Office is not aware of any specific issue with operating an ATM at weekends.

Power and telecommunication issues

- 5.23 Paragraph 5.20 of the Report states that many Applicants have commented on the impact of power and telecommunications failures on the ATM. The Report acknowledges that, even when they have dates of power or telecommunications failures, Applicants cannot clearly link them to specific deficiencies in their branches.
- 5.24 There are standard recovery processes in place to ensure that no data is lost or corrupted. This recovery process was reviewed in detail by Second Sight in their Interim Report and found to work. Post Office remains confident that branch accounts will not be corrupted due to power or telecommunications failures.

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5.25 Despite this, the Report speculates that the need to re-box the ATM by either the Subpostmaster or BDI could "introduce a possible risk of data loss or corruption". This comment is not supported by any evidence either from a specific Applicant's case or general evidence that such a problem may exist.

5.26 Post Office therefore remains confident that data cannot be corrupted as suggested by the Report.

Retracts

5.27 Paragraphs 5.21 to 5.25 discuss failed cash withdrawals. As paragraphs 5.22 and 5.23 state, if cash dispensed is not physically removed then after a period of time the cash will be retained by the ATM. This is known as a retract. It can occur for a number of reasons but often because the customer gets distracted. It is also possible that retracts can be subject to fraud by customers. The Report indicates that Subpostmasters might be liable for losses caused by this fraud. This is correct where Subpostmasters have failed to account for retracts correctly. Provided the accounting is done correctly, a Subpostmaster will not be liable for any loss caused by retract fraud.

5.28 The accounting process for retracts is as follows:

- a. Each working day, a Subpostmaster must check the ATM Bank Totals receipt (which is generated by the ATM) to see if any retracted transactions have taken place. The receipt will show the number of retracts.
- b. If any retracts have taken place, the Subpostmaster must physically remove the retracted notes from the ATM (which are stored in a separate part of the ATM from other cash).
- c. For all retracted cash removed from an ATM, the Subpostmaster must count and report on Horizon the total value of retracted cash on the same day (using the ATM Surplus Cash button on Horizon). If a retract occurs when the Post Office branch is closed it should be removed and reported on the next working day.
- d. Once reported on Horizon, the retracted cash should be placed in the branch safe and form part of the cash holdings of the branch.

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- 5.29 Customers' accounts will be debited even though they did not remove their cash. This is often re-credited but it is an issue for the customer and their bank, although Post Office will do what it can to assist both to resolve this issue. At this point, the branch accounts will balance as the amount of cash physically dispensed (including any cash subsequently retracted) will match the cash dispensed figure on Horizon and the amount of cash in the retract cassette will have been counted and added to the branch accounts.
- 5.30 Retract fraud occurs where a customer conducts a withdrawal transaction from their own bank account using an ATM. When the cash is vended, the customer looks to remove the middle notes, leaving the top and bottom notes behind, thereby hoping to trick the ATM into believing that the cash has not been taken. The ATM then retracts the remaining cash back into the machine, believing that it has retracted the entire sum withdrawn. The fraudulent customer's intention is that when the bank checks the retract records for the ATM in question, it sees that there was a retract recorded against the customer's withdrawal transaction and would then fully re-credit the customer's account.
- 5.31 Provided the Subpostmaster follows the above procedure in relation to retracts, he will not be liable for any ATM cash loss caused by retract fraud.
- 5.32 Post Office provides to BOI details of the amount of each retracted cash transaction as part of its weekly ATM balances recorded on Horizon. BOI uses that information to look for a match between the actual amount of retracted cash removed from the ATM and the amount of the original cash withdrawal transaction. If there is a match, then this will indicate that there has been no retract fraud and the full amount will typically be re-credited to the customer. If there is a discrepancy, then BOI may undertake further investigations into the customer's activity.
- 5.33 As long as Post Office can provide the daily retract declarations from Horizon then any loss caused by any retract fraud does not fall on the Subpostmaster.
- 5.34 If a Subpostmaster does not declare a weekly ATM balance through Horizon, which includes the amount of any retracted cash, then Post Office cannot provide that information to BOI. As BOI has not been provided with balancing information it is unable to determine whether a retract was fraudulent. The full amount of the cash withdrawal re-credited to the customer is therefore charged on by BOI to Post Office.

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- 5.35 Where Post Office is charged by BOI, it passes on this charge to the Subpostmaster by way of a Transaction Correction where the weekly ATM balance, including any retracted cash records, are not available because of the Subpostmaster's failure to follow proper accounting processes.
- 5.36 It should be noted that where the retract was not fraudulent, the correct amount of cash will have been retracted into the ATM. Even if the Subpostmaster has not properly accounted for this cash on Horizon, the retracted cash will still be in the branch (either in the branch's cash holdings or still in the ATM) as surplus cash. This surplus cash will offset any Transaction Correction for failing to follow proper accounting procedures.
- 5.37 Where retract fraud has occurred, then the amount of surplus cash recovered from the ATM will be less than the amount of the original cash withdrawal transaction. This discrepancy will fall on the Subpostmaster if they have not followed the proper accounting procedures.
- 5.38 The Report does not suggest there is any failure in the above procedure that may cause an unwarranted loss to a Subpostmaster. Post Office therefore remains confident that provided the above process is followed by a branch, a Subpostmaster will not be liable for loss caused by retract fraud. However, should they not follow the above process, then they may be liable for some or all of the cash lost to the fraud. Post Office considers that this allocation of responsibility for preventing retract fraud is fair and Subpostmasters can avoid all risk altogether by following the above simple accounting process.

Other frauds

- 5.39 Post Office accepts that there are other forms of fraud that may be occurring. However, it is not aware of any form of fraud (including retract fraud) that creates a loss to Subpostmasters, provided they follow the correct accounting procedures.

Conclusion

- 5.40 Overall, provided a Subpostmaster follows the appropriate procedures they will not be liable for any ATM loss due to an "out of sync" problem or retract fraud. Post Office does not agree that the instructions and support in relation to ATMs is inadequate. No evidence is provided to support this position nor have the large number of ATMs across the Post Office network that are operated without concern appear to have been considered. This would support the position that the operating practices for ATMs are clear, understood and work in practice.

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Post Office's response to section 6 – Motor Vehicle Licences

- 6.1 Section 6 of the Report considers the issuing of Motor Vehicle Licences (MVL). The Report itself notes that only a small number of Applicants reported problems concerning processing MVL. It is not therefore clear that this can be considered a system wide issue of general application.
- 6.2 Paragraph 6.1 describes a problem encountered (by what Post Office believes to be a single Applicant) when form V11C (the form used by customers to renew their MVL tax discs) was misprinted with the incorrect barcode. Form V11C is not produced by Post Office but by the DVLA and therefore this was an external error. The Report states that the effect was that a sale was recorded as a 12 month tax renewal rather than the 6 month tax disc as was sold. The Report states that whilst the customer would have paid for and received a 6 month tax disc, the accounts would have recorded a sale of a 12 month disc and, as a result, there was a potential liability to the Subpostmaster for the additional 6 months.
- 6.3 This is incorrect. The barcode on the V11C form does not define the duration of the tax disc but the overall cost whether taxing a vehicle for 6 or 12 months. A V11C is printed with tick boxes for the customer to confirm whether they would like to tax a vehicle for 6 or 12 months. Upon scanning the V11C, which identifies the registered vehicle, Horizon will prompt the user to enter whether the customer wants a 6 or 12 month tax disc. If the barcode printed was incorrect this could lead to a charge based on a different vehicle, which could be potentially more or less than the appropriate charge if the vehicle identified by the barcode is in a different tax band to the customer's actual vehicle.
- 6.4 If there is an error with a barcode, it would be an issue with the tax banding not whether a vehicle is taxed for 6 or 12 months. This issue could benefit or disadvantage the customer. However, Horizon would invite payment at the level requested by the barcode. Provided that payment was taken for the amount requested by Horizon the branch would not suffer a loss as there is no loss or gain from the transaction from the branch's and Post Office's perspective. Whilst this issue is clearly not desirable (and Post Office would offer all possible assistance to the customer to correct any error on the DVLA issued V11C form), this issue does not impact on branch accounting.
- 6.5 Paragraph 6.2 speculates that if this type of discrepancy occurred, resulting in a loss for the branch which the Subpostmaster would be liable for, the amounts could be significant. There appears to be no evidence to support this assertion. This appears to be a one off incident.

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created by a barcode that was created by a third party, the DVLA. As this issue is so specific to a particular Applicant's circumstances, Post Office cannot see how this can be classed as a thematic issue affecting Applicants generally.

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Post Office's response to section 7 – National Lottery

- 7.1 Section 7 concerns National Lottery transactions which are described in more detail at paragraph 5.35 of the Part One Briefing. In particular the Report highlights alleged problems that Subpostmasters may have in relation to (1) scratchcards and the activation of them and (2) sales continuing outside of Post Office hours of Lottery products in a connected retail shop resulting on the Horizon and Camelot terminals being "out of sync".

Activation of Scratchcards

- 7.2 Paragraph 7.2 states, correctly, that before February 2012 any Lottery scratchcards received by a branch had to be manually "activated" on Camelot terminal and then remitted in to Horizon. This process is described in more detail at paragraph 5.42 of the Part One Briefing.
- 7.3 Paragraph 7.3 of the Report describes how a branch could become "out of sync". This means that the activation of scratchcards on the Camelot terminal did not reflect those remitted in on Horizon. This would result in either a surplus or a deficiency of scratchcard stock in the branch accounts. To remedy this error, Post Office and Camelot conducted daily reconciliations of the data on the Camelot terminal and on Horizon. Where there was a discrepancy, a Transaction Correction would be issued to the branch.
- 7.4 Any errors that occurred through the failure to activate or rem in scratchcards were errors that occurred in branch due to a failure to follow the correct procedure and therefore were a Subpostmaster's responsibility.
- 7.5 However, the effect of not remitting in scratchcards into Horizon will not in itself create a loss. The physical scratchcard stock will still be in the branch as it must have been delivered to the branch for it to be activated on the Lottery terminal. The Transaction Correction only increases the amount of scratchcards shown in the branch accounts to reflect the amount actually on hand.
- 7.6 If the scratchcards have been sold but not remitted into Horizon, the branch would show a negative stock value for scratchcards (as each sale reduces the stock line in the accounts even if this goes below zero). The subsequent Transaction Correction will therefore increase the scratchcard holdings, cancelling out the negative figure and bringing the accounts back into balance.

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7.7 The opposite effect will happen if scratchcards have not been activated on the Lottery terminal but remmed into Horizon.

7.8 In summary, it is clear that this issue is caused by errors in branch for which Subpostmasters are responsible but that in any event this issue cannot be a source of actual losses.

Support

7.9 At paragraph 7.6 the Report states that the problems encountered by the Applicants (prior to procedural improvements described at paragraph 5.43 of the Part One Briefing) were exacerbated by the Helpline which was not able to offer assistance. Post Office is not aware of the specific calls or incidents that the Report is referring to which are alleged to demonstrate a thematic failure to provide adequate advice

7.10 This is an issue that will need to be considered on a case by case basis depending on the advice provided to an individual Applicant. However, as noted above, the reconciliation process conducted by Post Office means that any error would be corrected in due course.

Out of hours sales

7.11 Paragraph 7.2 of the Report describes an alleged problem relating to the syncing of sales that take place "out of hours". Sales of Lottery products (as described at paragraph 5.39 of the Part One Briefing) may continue while a connected retail shop is open but the Post Office counter is closed. However, the branch needs to ensure that any cash taken for any "out of hours" sales is transferred from the retail shop to the branch cash holdings the following day.

7.12 The value of the "out of hours" sales (and any other sales) will be automatically sent to Horizon each day by way of a Transaction Acknowledgement which will increase the cash position in the branch's accounts. The amount of cash to be transferred from the retail side to the Post Office side is easily identified as the figure is displayed on the Transaction Acknowledgement. If a Subpostmaster does not transfer the physical cash from the retail side into the branch for these sales, this will produce a cash shortage. The Subpostmaster will be liable for this cash shortage at the end of the trading period.

7.13 Paragraph 7.7 of the Report highlights an alleged "complication" occurring on the final Wednesday evening of the monthly trading period for those branches operating Lottery terminals. This is reference to the trading period reconciliation completed on a monthly basis. Rather than process the reconciliation on a Wednesday evening as they would normally do,

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Subpostmasters with Lottery terminals have to first accept the Transaction Acknowledgement sent overnight and complete the reconciliation as a matter of priority the following morning. The Report states that this process was not always provided by the Helpline.

7.14 Post Office has not seen any evidence to support this assertion and has provided Second Sight call logs relating to individual Applicants' cases. However, no specific calls are referenced to support this statement.

7.15 In fact, branches operating a Lottery Terminal needed to make daily cash declarations (see paragraph 8.2 of the Part One Briefing) like all other branches. As Lottery sales data is sent overnight, Lottery branches are instructed to conduct their cash declarations and end of trading period balances (see paragraph 7.45 of the Part One Briefing) first thing in the morning after the Lottery data was received. This was not therefore a complication but an adjusted daily process for branches with Lottery terminals.

7.16 In practice, some branches chose not to follow "next day" guidance and may have conducted balances several days later. Post Office operational instructions have however always provided for next day accounting.

7.17 In summary, any loss arising from "out of hours" issues highlighted in the Report will arise as a result of an error in the branch for which a Subpostmaster is liable.

Conclusion

7.18 Procedures have evolved to assist Subpostmasters and reduce the number of Transaction Corrections that are necessary in relation to scratchcards, especially in relation to the activation of them. However, the "out of sync" effect created by either incorrect activation or non-activation of scratchcards or not correctly recording the out of hours' sales are errors that arise within branch. The errors were not due to either Post Office or Horizon and therefore any liability appropriately remains with the Subpostmaster if it arises.

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Post Office's response to section 8 - Training, Support and Supervision

- 8.1 Section 8 principally considers the training on Horizon and branch accounting provided to Subpostmasters by Post Office. Currently, training for Subpostmasters consists of a mixture of classroom training and in-branch training. Further training is available upon request and there is a well-developed support network including the NBSC, managerial support and Field Support Advisors. This training and support is described in more detail at section 4 of the Part One Briefing.
- 8.2 The Report comments that the training was adequate in relation to "Business as usual" transaction processing but was weak in relation to the end of day, end of week and end of trading period balancing. In addition, the Report states that there was no consideration given to dealing with discrepancies, how to identify the root causes of problems and how to deal with Transaction Corrections.
- 8.3 These views appear to be based entirely on the anecdotal information provided by Applicants in their CQRs. As noted in the introduction to this Reply, that information remains largely untested. Post Office has not been asked to provide any training materials for review nor has the Report established any industry standard or contractual benchmark against which to judge Post Office's performance. The limited analysis used to support the Report's conclusion is considered below and shown to be incorrect.
- 8.4 Given that the Report has presented no evidence or analysis that shows that Post Office's standard training is defective, Post Office stands by its training practices as being effective. Post Office considers that the training and support that is provided is fit for purpose and adequate to meet the needs of Subpostmasters. This is proven by the thousands of Subpostmasters who are successfully operating Horizon, having received the training from Post Office.
- 8.5 There may of course be specific cases where training and support has not been provided to Post Office's usual standards (which is not impossible given the thousands of Subpostmasters trained and supported by Post Office over the years) but these situations will be considered on a case by case basis and are not reflective of any general thematic issue.

Move to Horizon

- 8.6 At paragraphs 8.3 and 8.4, the Report finds that many Applicants found that discrepancies began to occur when they moved to Horizon. The conclusion reached in the Report is that this

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was due to a lack of understanding of how the system was due to operate and be used, meaning they were insufficiently trained, had not been able to train their staff properly or there were issues with the new screen-based processes.

- 8.7 Post Office does not agree with this conclusion and it appears to be unsupported by any evidence that fewer mistakes were made prior to the introduction of Horizon. Transaction records are not available for the pre-Horizon period and it is not possible to test the conclusion which is put forward. It therefore appears that the Report has accepted Applicants' anecdotal recollection of events without any corroborating evidence. Paragraphs 1.11 - 1.13 in the introduction to this Reply highlights the deficiencies in this approach.

ATMs, Lottery transactions, MVL foreign currency or other specialist products

- 8.8 At paragraph 3.6 the Report highlights that Applicants considered that the Post Office trainers and line managers were weak in relation to dealing with ATMs; Lottery transactions; Motor Vehicle Licences; Foreign Currency and other products.
- 8.9 There is a lack of evidence to support these alleged comments from Applicants. Due to document retention policies training records for a number of Applicants are no longer available. There also appears to be no contemporaneous evidence that Applicants were not provided with adequate support by trainers or line managers whether in relation to ATMs, Lottery transactions, MVL, foreign currency or other specialist products. If there was a lack of understanding in relation to these aspects Post Office would expect the Subpostmasters to request further training or otherwise seek assistance through NBSC.

Training Needs Analysis

- 8.10 Training support is provided through various means including the NBSC and managerial support. In addition, training materials are provided on a regular basis and further training can be requested by Subpostmasters.
- 8.11 The Report notes at paragraph 3.7 that further training was delivered in accordance with user demand rather than being determined by a Training Needs Analysis. This is not correct. When Subpostmasters complete their training there are follow up reviews at one, three and six monthly intervals. In addition to confirming that the business is operating as it should be there is an analysis on the Subpostmasters' understanding. If there are any gaps, these are highlighted and further training can be provided. After this stage there is a reasonable assumption that the Subpostmaster will be reasonably competent, with the support network

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highlighted above, to operate Horizon. Subpostmasters are operating a commercial business and can request additional assistance and training when required.

Training assistants

- 8.12 As is made clear within the Contract (at section 15, paragraph 7) it is a Subpostmaster's responsibility to train his/her staff. Nevertheless, the Report criticises Post Office at paragraph 8.7 for not operating a "quality control function" to ensure that branch staff are properly trained by Subpostmasters.
- 8.13 The Report seeks to impose on Post Office a responsibility which is not stated in the Contract (see paragraph 4.8 of this Reply).
- 8.14 Any failure by a Subpostmaster to train their staff adequately could be the reason for the losses or increase in discrepancies. However, any resulting losses would be due to the Subpostmaster's error and he would be liable for them (under section 12, clause 12 of the Contract).
- 8.15 In any event, Post Office could not operate the quality control function proposed by the Report. Each Subpostmaster, as an independent business person, is free to employ whoever they wish (subject to registering them with Post Office) as assistants and to give their employees whatever tasks they wish.
- 8.16 Furthermore, Post Office cannot monitor the performance of individual assistants; it does not engage or employ; only Subpostmasters can do this.
- 8.17 Post Office agrees that a "quality control function" should be applied to assistants however this should be undertaken by Subpostmasters and not Post Office. Indeed, in a number of cases, losses appear to have stemmed from Applicants' failure to exercise any "quality controls" over the actions of their staff.

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Post Office's response to section 9 – The Helpline

- 9.1 Section 9 concerns the assistance provided by the Helpline to the Applicants. Post Office operates a number of helplines including the Horizon Help Desk and Finance Services Centre. It is presumed that the Report is referring to the NBSC. More detail on the Helpline can be found at paragraph 4.2 of the Part One Briefing.
- 9.2 The following criticisms of the Helpline are listed in the Report:
- a. Difficulty contacting the Helpline due to limited availability;
 - b. Unhelpful, script based responses;
 - c. Many calls were afforded "low priority", including those relating to balancing problems and discrepancies;
 - d. Contradictory advice that revokes previous advice.
- 9.3 This section of the Report repeats allegations of Applicants. Those allegations appear untested (see paragraph 1.7 of the introduction to this Reply) and the Report reaches no conclusion at all. On this basis, Post Office cannot understand how this topic is considered a thematic issue. Nevertheless, the allegations presented in the Report are addressed below.

Difficulty contacting the Helpline due to limited availability

- 9.4 Post Office has previously acknowledged that as changes were made to standard operating practices over the years there have been periods where the Helpline could be difficult to contact. Changes were made, especially at the end of trading periods, and the hours that the Helpline was available for was extended.
- 9.5 Currently the opening times for the Helpline are from 06:00 to 23:00 on Monday to Saturday and 07:00 to 17:00 on Sunday and Bank Holidays. Post Office monitors the number of calls made to the Helpline.
- 9.6 Statistics available for the period from April 2011 to March 2014 show that:
- Calls made: 1,825,059
- Calls Answered: 1,687,537 (92.46%)

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Average waiting time until answer: 45 seconds

Calls abandoned: 137,522 (7.54%)

- 9.7 As can be seen from the above calls the average waiting time was just 45 seconds. Over 92% of all calls made to the Helpline were answered. Of the abandoned calls, this will include all abandoned calls and therefore will not solely be callers who have decided to abandon their call because they cannot get through to the Helpline (for example they may have resolved the issue themselves).

Unhelpful, script based responses

- 9.8 The Helpline does not use scripts. The operators, many of whom are very experienced with Horizon, listen to the query and then using 'categorisations' in Remedy (the contact management system) the Post Office Knowledge Base is accessed where there are articles relating to that category of call. The operator then selects the relevant article according to the issue raised by the caller and relays the information to them. If the Knowledge Base does not provide the relevant information there is a second tier of advisors that the enquiry can be escalated to.

Many calls were afforded "Low Priority"

- 9.9 There is no priority system in place for calls to the Helpline with the exception of matters relating to robbery or burglary. Whilst those calls are dealt with as a priority other calls are answered and dealt with in the order they are received.
- 9.10 In addition, if the Subpostmaster was not satisfied by the advice provided they could seek a higher level of support as described at paragraph 4.6 of the Part One Briefing.

Alleged contradictory advice

- 9.11 No evidence is presented in the Report to support the view that contradictory advice has been given by the Helpline.

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- 9.12 All calls to the Helpline are recorded by the Helpline operators in the NESC call logs. The logs describe briefly the nature of question and the answer given if appropriate. The Report states that there is insufficient evidence within the call logs that have been provided to them to conclude what advice was provided. However, Post Office considers that if calls were not being answered or addressed appropriately then either the matters would be escalated (which would be noted) or there would be repeated calls about the issue that the Subpostmaster was facing. There would be evidence that the advice had not resolved the problem or the Applicant was not happy with the advice. The absence of this or other evidence to the contrary suggests that the calls had generally been resolved satisfactorily whilst accepting that there may have been individual calls where an Applicant was not content with the advice provided.
- 9.13 At paragraph 9.2 the Report states that a frequent comment by the Helpline was that matters would resolve themselves. It is likely that this was reference by the Helpline to a Transaction Correction being generated following a surplus or deficiency and that would resolve the issue.
- 9.14 Through its own investigation Post Office has found no evidence to support the allegations that Helpline would often merely comment that matters would resolve themselves or be dismissive of any enquiry. In addition to the initial advice from the Helpline, if matters could not be resolved they could be escalated to a higher level of support. Support could have been provided by Field Support Advisors or other managerial support if it had been requested. Post Office is not aware of any wider systemic problems where this support was not being provided.

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Post Office's response to section 10 – Limitations in the Transactional "Audit Trail"

- 10.1 Section 10 of the Report considers what it generically refers to as "limitations in audit trails". The Report is concerned that Subpostmasters are not able to investigate the root cause of errors (even where they admit it is caused by their own or an in-branch error) due to a lack of access to necessary transaction data.
- 10.2 The Report considers three situations:
- a. Data that is not available on the day of the transaction under investigation;
 - b. Data that is available but after 42 / 60 days is no longer available; and
 - c. Data that is not available after suspension.
- 10.3 In general, Post Office considers this section is premised on a misunderstanding of the nature of the information needed by branches to investigate losses.
- 10.4 If at the end of a day, a branch produces a cash declaration that shows a discrepancy, then the branch will have access to a range of reports on different products and transactions to investigate the possible causes for the discrepancy (including a complete line by line listing of all transactions that day). This also applies at the end of the trading period as a trading period is either 4 or 5 weeks (28 or 35 days) and the above reports and data have always been available in branch for a minimum of 42 days.
- 10.5 If a Transaction Correction is sent to the branch, the information needed to verify the Correction will not be the Horizon data (Post Office has this data and takes this into account when generating the Transaction Correction). The information is likely to be in the paper records held at the branch.

Data that is not available even from the day of transaction

- 10.6 Paragraphs 10.4 to 10.8 of the Report raise the issue that some information is not available to Subpostmasters even on the day that a transaction takes place. The example provided in the Report is where an aggregate amount or volume is provided for Debit or Credit Card transactions. An aggregate amount for the number of transactions was provided at the end of each day rather than a breakdown of the individual transactions. As a result, the Report

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states that Subpostmasters are not able to identify the individual transaction that may have caused a balancing error. The Report considers that this would prevent a Subpostmaster from mitigating their loss or remedying the error by contacting the customer. This position was allegedly different prior to the introduction of Horizon when paper records were kept and could be reviewed

- 10.7 Post Office does not understand this line of enquiry. Debit and credit card information has never been retained on Horizon in branch – indeed doing so would be a breach of Payment Card Industry standards (and Horizon is PCI accredited). However, as mentioned above, branches have always had access to line by line transaction data each day and this data records the method of payment (eg. cash, cheque or card).

Data that is available but after 42 days is no longer available (this was extended to 60 days)

- 10.8 On the original Horizon system, line by line transaction data was available in branch for 42 days after a transaction occurred. On Horizon Online (since 2010), this data is available for 60 days.
- 10.9 The Report considers that with data only being available for a limited period of time, it may not be available to support a challenge by a Subpostmaster to a Transaction Correction that may be issued after the date that data can be retrieved (ie. beyond 42 or 60 days). The Report states that this restricts Subpostmasters' ability to challenge Transaction Corrections.
- 10.10 What the Report does not take into consideration is that Subpostmasters may challenge a Transaction Correction without transaction data. Also Transaction Corrections are often preceded by an enquiry and so even if the Transaction Correction is beyond 42/60 days then an enquiry may well have been received within the period enabling the matter to be investigated within the 42/60 day period. There is a wide range of evidence that can be provided to review or challenge a Transaction Correction. Often it is very product specific and not a general view across all data entries. Typically, the necessary data is kept in branch records rather than on Horizon. These documents should be retained beyond the period that data is available through Horizon and is used by Subpostmasters to challenge or review a Transaction Correction.
- 10.11 For example, if a branch wishes to contest a Transaction Correction relating to ATM transactions (see section 5 above), the information needed is on the paper "Totals Receipt"

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printed daily by the ATM which shows how much cash has been dispensed by the ATM and other important information. This receipt must be retained in branch. No access to Horizon data is needed as all the necessary information is on the "Totals Receipt".

- 10.12 The general proposition in the Report that Horizon data needs to be available for more than 42 or 60 days is incorrect. Any challenge to a Transaction Correction, and the data needed to make that challenge, must be considered on a product by product basis. Post Office is prepared to investigate any product specific allegation that there is insufficient data or information available to Subpostmasters to challenge and review Transaction Corrections. It is confident that it will be able to show that sufficient information is available to Subpostmasters.

Data that is not available after suspension

- 10.13 Paragraph 10.10 of the Report highlights that some Applicants were refused access to data following their suspension and access to their own records that may have been seized upon audit. As a result they say that they were unable to defend themselves from any claim made by Post Office for the recovery of monies.
- 10.14 Whilst Post Office are aware that some Applicants have raised the issue that their own records were removed and not returned to them there is no evidence produced or referenced by the Report to support the position that data being withheld has prejudiced an Applicant in any way.
- 10.15 As to other branch records, these are the property of Post Office. In the event of a Subpostmaster being suspended, Post Office may take away some branch records for investigation.

Giro Transactions

- 10.16 A connected issue that is considered at paragraph 17.4 of the Report is the process relating to Giro Transactions (under the heading "counter-errors that benefit customers"). Giro Transactions are, in essence, deposits of cash into a customer's bank account. Previously, this involved a two-part paying in slip with one copy retained by the customer and the other retained by the branch. At the end of the day, the branch copy could be cross-referenced to the entry made on Horizon to check for any errors by the branch in keying in the wrong figure

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into Horizon. This process changed to a chip and pin system using a swipe card at the request of the processing bank (Santander) that ran the Giro banking service. Following the change, no deposit slip would be presented by the customer and no paper documentation was retained by the branch.

- 10.17 The Report states that due to the change in this process there is nothing to allow the Subpostmaster to check whether or not the cash deposit entries on the system reflected the amount of cash deposited. This is incorrect as the amount recorded on Horizon to be deposited is now confirmed by the customer through the chip and pin machine in branch. This is the same process used by all high street banks which have also moved away from paying in slips to card based deposits.

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Post Office's response to section 11 – Transactions not entered by Subpostmaster or their Staff

- 11.1 Section 11 of the Report considers transactions that have not been entered by the Subpostmaster or their staff such as where there is an "automated transactional reversal". This appears to be the same underlying issue as raised in section 12 – see that section for Post Office's reply.

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Post Office's response to section 12 – Transaction Reversals

- 12.1 Section 12 of the Report considers the issue of Transaction Reversals.
- 12.2 Transaction Reversals are where part of a basket of transactions is reversed because the basket is interrupted before completion (typically due to a power or communication failure).
- 12.3 The Report states that when a Transaction Reversal happens, Horizon records the reversal against a user ID of the Subpostmaster or a member of staff. The Report states that this is misleading because the reversal is "automatic". This interpretation is incorrect.
- 12.4 As far as Post Office is aware, this issue has only been raised as part of a Spot Review conducted by Second Sight whilst preparing its Interim Report. The Subpostmaster who put forward the Spot Review has decided not to make an Application to the Scheme and no other Applicant has raised this issue.
- 12.5 As detailed in Post Office's response to the Spot Review (full details of which are confidential in order to protect the privacy of the Subpostmaster whom it concerned), the reversals were caused by the Subpostmaster cancelling a number of transactions that they were conducting for a customer. The user's System ID is shown as the person making the reversal because they initiated the reversal process.
- 12.6 The extracts taken from the report by Helen Rose (as quoted at paragraph 12.3 and 12.4) are taken out of context. The report was addressing concerns that reversals were not being clearly shown on the particular data being reviewed (i.e. the ARQ and credence data being the main transaction data used by Post Office). However, this data is available on other records that can be extracted from Horizon. The report makes clear that this is not an issue with Horizon itself or its data but the way that the data it produced was presented within one particular data log. It does not suggest that there was any entry being made that was not initiated within the branch by the Subpostmaster or their staff.
- 12.7 This section raises no issue that could be the cause of losses in a branch.

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Post Office's response to section 13 - Cash and Stock Remittances (Rems) in and out of the branch

- 13.1 Section 13 of the Report focuses on the remittance of cash and stock to and from branches. Paragraphs 7.16 and 7.29 of the Part One Briefing describe the remittance process.
- 13.2 On occasions issues can arise such as cash pouches not being received or there being less or more cash within the pouch than stated. This will result in a Transaction Correction being raised.
- 13.3 If the cash centre remits a cash pouch to a branch and it is not received this will not result in a loss to the branch. The cash centre will investigate why the pouch has not arrived and ultimately bear the loss. The cash pouch is scanned upon receipt by the branch and therefore it is only at this stage that the cash is registered on Horizon as being held in branch. From this point any loss of cash is the responsibility of the branch and Subpostmaster. There may be some occasions when the pouch barcode will not scan. In such circumstances the pouch is entered as received manually by keying in the barcode number.
- 13.4 If there is more cash within the pouch than stated the branch should report this within 24 hours of receipt. This will result in a surplus to the branch and a Transaction Correction is issued to correct the balance on Horizon.
- 13.5 In circumstances where the pouch contains less cash than expected the matter should be reported by the Subpostmaster within 24 hours of receipt. The issue is investigated by the Post Office cash centre. If the cash centre accepts that the pouch contains less cash due to their error they will bear the loss (if any). A Transaction Correction is issued to the branch to correct the balance on Horizon.
- 13.6 Where the cash centre does not accept that it is their error the Subpostmaster is invited to review the security cameras that monitor the loading of cash into the pouch at the cash centre. If the Subpostmaster wishes to continue to challenge the amount received they can do so through the FSC in the same way that a Transaction Correction is challenged. If less cash is held on Horizon a Transaction Correction would be issued. The loss can be placed in the suspense account whilst the matter is investigated and resolved.
- 13.7 A similar process is applied when cash is remitted to the cash centre from the branch. The amount of cash serial within the pouch is recorded. If this sum is more or less than anticipated

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when received by the cash centre the issue is investigated. The Subpostmaster has the opportunity to view security cameras that monitor the movement of the pouch and can choose to accept the shortfall / surplus or place the loss / gain into the suspense account and investigate the matter further.

- 13.8 Paragraph 13.4 deals specifically with the instances where foreign currency has been accidentally sent to the wrong branch. The Report speculates that this could result in a Subpostmaster being responsible for a delivery that was never received.
- 13.9 The same process outlined above applies to foreign currency. If a pouch is not received by a branch it will not be scanned into Horizon and there will be no increase in cash holdings. If the pouch is not received there is no loss to the branch.
- 13.10 Where the pouch is taken to a different branch in error it can be rejected and will be returned to the cash centre. If an alternative branch accepts the pouch it will be scanned into Horizon and increase the foreign currency held at that branch. Transaction Corrections will be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

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Post Office's response to section 14 – Cheques

- 14.1 Section 14 of the Report discusses the process of remitting cheques from Post Office branches to Post Office's cheque processing provider. It considers the situations where cheques go missing and do not reach the cheque processor, or cannot be processed by the customer's bank.
- 14.2 To assist Applicants, Post Office has set out below the cheque remittance process and the process followed when cheques go missing or bounce.
- 14.3 In summary, it is inevitable that cheques will occasionally go missing at some stage in their processing. However, as stated in paragraph 14.6, provided that the Subpostmaster follows the correct procedure for processing the cheques in branch this will not result in a loss. The cost of a lost or bounced cheque is only passed to a Subpostmaster where there is clear evidence that the Subpostmaster has failed to follow proper acceptance or remittance processes and Post Office has exhausted all other possibilities of recovering the missing cheque. This is done in accordance with clause 12, section 12 of the Contract under which the Subpostmaster is liable for any losses caused by carelessness, negligence or error.

Process in branch

- 14.4 Most Post Office branches are entitled to accept cheques from customers as the method of payment for a range of designated transactions. The cheque should be scrutinised by branch staff to make sure it is not a forgery and the reverse of the cheque needs to be date stamped, initialed and the relevant transaction details recorded. This will enable identification of the specific product and/or customer in the event of an error. There may be no customer details recorded on Horizon against the cheque transaction hence the need to endorse the cheque with those details.
- 14.5 The method of payment (MOP) by way of cheque should be recorded on Horizon. When recording a MOP as by cheque, the customer's cheque is automatically recorded on Horizon as a part of the branch stock.
- 14.6 All cheques taken should be despatched from the branch via the final Royal Mail collection of the day (except Fridays). The branch process for remitting cheques is as follows:

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- a. Subpostmaster produces a cheque listing report from Horizon (which shows the value of each cheque accepted that day)
- b. Subpostmaster verifies that the cheques held in the till match (volume and value) against the cheque listing report.
- c. The total cheque value is then marked on Horizon as being remitted to POL (known as "remmed out").
- d. A further cheque listing report is then produced. This will show the cheques being remmed out as a negative value and the report will now total zero.
- e. The cheque listing report is "cut off". The branch cheque stock will now also be zero.
- f. A Batch Control Voucher (BCV) is manually completed to show number of cheques, value and despatching branch. The cheques are attached to the BCV. The cheques are then despatched for processing in the relevant envelope via Royal Mail to the cheque processor.
- g. Horizon cheque listings and remittance slips are retained in branch.

FSC process

- 14.7 The POLSAP finance system at the FSC is automatically updated each night from Horizon (for the values of cheques remmed out from branches). The cheque team in FSC are able to view this data the day after the transactions and will see the outward remittances recorded.
- 14.8 Similarly an electronic file will be received overnight by FSC from the cheque processor via an automatic upload into POLSAP which shows the actual cheques received from each branch. FSC can then compare the values recorded by the branch as despatched against the values recorded by the cheque processor as received.
- 14.9 Approximately 1,000 entries will remain unmatched each day (ie. there is a discrepancy between the cheques received by the cheque processor and the information sent via Horizon by Subpostmasters about cheque remittances) and could be an indication of missing cheques. Many cases are resolved quickly (ie. late delivery by Royal Mail or the Subpostmaster missed the collection or forgot to put a cheque in a pouch). There will be around 100 cases per month where it becomes apparent that a cheque has actually gone "missing".

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Investigating lost cheques

14.10 It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the cheque processor. Post Office's policy is that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, Post Office will absorb this loss and not pass it on to the Subpostmaster.

14.11 In the vast majority of cases, Post Office either mitigates the loss caused by a lost cheque or absorbs the loss itself. Only a very small number of missing cheque cases result in Transaction Corrections being issued to a branch.

14.12 The process for investigating missing cheques is as follows:

- a. The transaction to which a missing cheque relates is (if possible) identified from the information input into Horizon by the Subpostmaster.
- b. Branches will be contacted when the missing cheque case is set up to see if the cheque can be found in branch or if they are aware of which customer has presented the cheque which has subsequently gone missing.
- c. If the branch cannot find the lost cheque, a variety of techniques (depending on product/information available) are employed to identify the customer and their address from the transaction data.
- d. The customer is then contacted to request a replacement cheque. If a replacement cheque is provided then the loss to Post Office is avoided.
- e. If a replacement cheque is not forthcoming, the relevant client organisation (ie. the product supplier, say Bank of Ireland, Environment Agency, etc.) is informed that the payment for that particular transaction has not been received and the transaction is reversed where possible. By reversing the transaction the loss to Post Office is avoided.
- f. Alternatively, if Post Office is unable to identify the customer details, the relevant client organisation may be asked to try to contact the customer directly for payment. By payment being made direct from the customer to the client the loss to Post Office is avoided.

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- g. if the transaction related to the missing cheque cannot be identified or if the transaction is identifiable but payment cannot be recovered from the customer or the client and the transaction cannot be reversed, Post Office will absorb the loss of the cheque provided discussions with the branch and review of transactional data does not reveal a breach of the operational processes.

14.13 There are two typical scenarios where Subpostmasters have failed to follow operational processes and will be held liable for missing cheques:

- a. Cheques have been accepted by the Subpostmaster for a non-cheque acceptable product (e.g. foreign exchange sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. If the transaction record cannot be identified then it may not be possible to identify the customer and/or client. This then frustrates Post Office's usual loss mitigation steps described above.
- b. The method of payment has not been correctly recorded on Horizon with the cheque as the MOP and it subsequently proves impossible to associate any transactions with the missing cheque. Such an instance will typically be illustrated by branches recording multiple/all transactions through "Fast Cash" and then introducing a bulk cheque value to Horizon via a "Cash/Cheque Adjustment" at the end of the day prior to remitting out. Again, this may frustrate Post Office's usual loss mitigation steps described above.

14.14 Where a Subpostmaster is held liable for a missing cheque, a Transaction Correction will be sent to the branch reversing the remittance of the cheque by the branch. This will return the value of the "missing" cheque to the branch's cheque stock. If the branch cannot obtain a replacement cheque from the customer, there will be a cheque shortage at the end of the trading period that the Subpostmaster will need to make good.

Bounced cheques

14.15 Paragraph 14.4 makes reference to specific complaints by Applicants (rather than it being a common theme amongst Applicants) that they were liable for cheques that bounced. As described above, the branch accounts treat cheques like a stock item. So long as the branch accurately records the receipt of cheques from customers and the remittance of cheques to

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Post Office, then the branch is not concerned with the banking of any cheques. The banking of cheques and recovery of payment from customer's bank is conducted by FSC. Post Office absorbs the credit risk posed by accepting payment by cheque and should a cheque bounce, Post Office will absorb the resulting loss.

- 14.16 The only exception to this rule is where the branch has failed to follow operational procedures. This may have included not completing the details in accordance with a cheque guarantee card (until these ceased in 2011) or taking payment for a product where payment by cheque is not permitted.

Transaction Corrections for missing or bounced cheques

- 14.17 Paragraph 14.5 makes reference to Applicants not being able to mitigate their losses as the transaction correction for a missing or bounced cheque has been sent to them too long after they accepted the cheque. Transaction corrections may be delayed on occasions but this is not the fault of Post Office. In some instances Post Office is dependent on a response from a third party (such as the customer's bank) before the Transaction Correction can be issued. This may have resulted in some delay but, as stated above, if the correct process is followed then Subpostmasters will not be liable for any lost or bounced cheques.
- 14.18 Typically, however if there is an issue with a cheque this issue will be raised through other channels with the branch. In most cases, the branch will be aware of the issue long before the Transaction Correction is submitted.

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Post Office's response to section 15 – Pensions and Allowances

- 15.1 Section 15 of the Report concerns the risk of fraud taking place in relation to Pensions and Allowances (P&A) transactions. In particular the Report states that Subpostmasters could be innocent victims of this type of fraud but still liable for the resulting losses in their branches.
- 15.2 For the reasons set out below, P&A fraud by branch staff can be easily detected by a Subpostmaster before any loss occurs so long as he/she is carrying out proper end of day checks on P&A transactions. Subpostmasters are therefore liable for any losses in their branch caused by P&A fraud as this loss arises due to their failure to conduct adequate checks.

Benefit payment methods

- 15.3 There are various methods by which benefits can be received by customers:

P&A books

- 15.4 P&A books were provided by the Department of Work and Pensions (DWP) to customers entitled to benefits. A nominated Post Office branch was set out on the cover of each P&A book, together with the customer's name and address. Within each book were (usually) 20 docketts, vouchers or foils (referred to in this Reply as vouchers) stating the FAD code of the nominated Post Office branch, voucher number and amount to be paid. The vouchers were presented to the branch staff, processed through Horizon and then cash paid to the customer. The vouchers were despatched each week by each branch to the Paid Order Unit (which in effect is the DWP) in Lisahally, Northern Ireland.

- 15.5 P&A books ceased to be used in circa 2005 and were replaced with Post Office Card Account.

Post Office Card Account (POCA)

- 15.6 POCA is a limited service bank account that only allows benefits to be deposited into the account by DWP and cash to be withdrawn. Withdrawals are conducted by the customer taking his POCA card into a Post Office and withdrawing in cash either some or all of the benefits within his account.

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Green Giros

- 15.7 Customers who lose their POCA cards or customers who are on temporary benefits may be sent Green Giros by the DWP.
- 15.8 These are cheques (also known as DWP cheques) which set out the payment amount and can be cashed in the usual way. These cheques are date stamped and retained by the Post Office after paying the customer. They have historically been accounted for and despatched by each branch weekly to Alliance & Leicester. They are now sent to Santander (both banks are referred to in this note as Santander for ease of reference). Green Giros should not be confused with Giro Payments which are an entirely different product.

P&A fraud

- 15.9 P&A fraud encompasses a number of different types of fraud, some of which are historical due to the change in payment methods over time.

Overclaim fraud

- 15.10 For each benefit payment to a customer recorded on Horizon, the branch should take from the customer the associated PSA voucher or cheque and remit each week all vouchers to the DWP and all Green Giro cheques to Santander. An overclaim occurs when the branch records a benefit payment on Horizon but does not remit the associated voucher or cheque. Without the voucher / cheque POL cannot recover the payment from DWP / Santander. This places a loss on POL which is then passed to the branch by way of a Transaction Correction (formerly known as an error notice, but referred to in this note as a Transaction Correction for ease of reference).
- 15.11 Overclaims are relatively easy to identify as the branch must record the remittance of vouchers or cheques out of the branch on Horizon and therefore it is possible to identify any missing weekly remittance.
- 15.12 A fraud can be committed by recording fake benefit pay-outs on Horizon, which lowers the amount of cash recorded to be in the branch (as Horizon assumes the cash has been passed to the customer). This causes a short term surplus (until the missing voucher / cheque is discovered and a Transaction Correction sent through) which can be used to cover other

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losses or removed from the branch at the end of trading period (assuming that there are no other offsetting losses).

Reintroduction fraud

- 15.13 Reintroduction fraud is a more sophisticated version of overclaim fraud whereby the false benefit pay-outs are disguised by the submission of duplicate paperwork.
- 15.14 In reintroduction fraud, a legitimate benefit pay-out is recorded on Horizon with cash being paid to a customer but with the corresponding voucher / cheque not being date-stamped or remitted out to DWP / Santander. At a later date (typically the following week), the same benefit pay-out is recorded again on Horizon. This time however no cash is paid to a customer (as the customer is not present) but the previous voucher / cheque is date-stamped at the later date and remitted to DWP / Santander.
- 15.15 For example, in week 1 there would appear to be an overclaim (amount claimed but no corresponding voucher or cheque). The amount would be claimed again in week 2 by submitting the cheque or voucher from week 1 (by this time date-stamped). The fraud is premised on DWP / Santander not spotting the missing voucher or cheque in week 1 or the reintroduced voucher / cheque in week 2. However, in practice, each voucher / cheque has a unique reference number which allows duplicate paperwork to be identified.
- 15.16 Each of these frauds has taken place both before the introduction of Horizon and when Horizon was in operation in Post Office branches. This is not a Horizon related issue. It is also largely an historic issue as most benefit payments are now through POCAs (which are not susceptible to the above frauds) although some Green Giro Cheques are still processed in branches.

Fraud prevention in branch

- 15.17 It should be noted that "overclaims" and "reintroductions" will not cause a loss to a branch. They generate a cash surplus, which as long as the cash had not been removed from the branch, will off-set any later Transaction Correction.
- 15.18 It was historically and remains open to a Subpostmaster to carry out immediate checks for P&A fraud as a Subpostmaster will have access to (i) each week's batch of cheques/vouchers and (ii) that week's records of P&A transactions as recorded on Horizon. It is therefore

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possible for a Subpostmaster to easily confirm that the value of the cheques and vouchers being remitted each week match the value of benefit pay-outs recorded on Horizon. This would reveal any overclaims or reintroductions.

15.19 For this reason, Post Office does not consider that a Subpostmaster could be the innocent victim of P&A fraud. If a Subpostmaster does not follow the proper process for remitting out P&A documents, and thereby fails to stop any overclaims or reintroductions at source, they are liable for any resulting losses.

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Post Office's response to section 16 – Surpluses

- 16.1 Section 16 of the Report considers Post Office's approach towards the surpluses that may be generated within branch.
- 16.2 As stated at paragraph 16.1, the contract between Post Office and Subpostmasters allows surpluses to be withdrawn provided that any subsequent charge is made good immediately. This means that Subpostmasters may retain surpluses that may be generated. The report confirms, correctly, that Post Office views both surpluses and deficits as discrepancies. However, the Report makes the incorrect conclusion that Post Office are not as concerned with discrepancies as they are with deficits.
- 16.3 Whenever Post Office discovers a discrepancy that can be attributed to an error in branch, whether it is a surplus or a deficit, it will generate a Transaction Correction to correct the branch's accounts.
- 16.4 Where discrepancies occur in branch (say at the end of a trading period where there is a shortage or a surplus of stock or cash), it is for the Subpostmaster to dispute the discrepancy. This is done by contacting the NESC. As there are more challenges to deficit discrepancies (and debit Transaction Corrections) Post Office spends more time investigating deficits than surpluses.
- 16.5 The system processes six million transactions every working day. Post Office only investigates a discrepancy in branch if the Subpostmaster requests assistance – it does not investigate every discrepancy identified in a branch's accounts:
- a. First, most discrepancies are fairly small and so do not warrant a full investigation unless the Subpostmaster raises an issue.
 - b. Secondly, the sheer volume of discrepancies would make investigating them all unworkable.
 - c. Thirdly, where a discrepancy arises in branch (ie. the cash on hand does not match the cash figure on Horizon) an investigation will require close involvement of the Subpostmaster and their staff as only they will know how the branch has transacted its business.

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16.6 The Report's conclusion that Post Office is not concerned with surpluses is therefore not correct. In any event, it is noted that this topic does not give rise to any thematic issue that indicates the Post Office or Horizon is responsible for losses caused in branches.

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Post Office's response to section 17 - Counter-errors that benefit customers at the expense of the Subpostmaster

- 17.1 Section 17 of the Report considers occasions when customers may benefit from certain errors in branch to the detriment of Subpostmasters. This section does not give rise to any thematic issue but rather appears to raise a series of discrete points.
- 17.2 Paragraph 17.1 of the Report highlights that mistakes can occur when a counter clerk presses the "Deposit" icon rather than the adjacent "withdrawal" icon. This error by a Subpostmaster or their staff would have the effect of doubling the size of the error (as the branch will record the receipt of money into the branch in the accounts which increases the recorded cash position but will have also handed over cash to the customer thereby lowering the amount of cash in the branch).
- 17.3 Post Office agrees that this error may occur but that this would be an error within the branch, not a systematic problem with Horizon. In these circumstances the Subpostmaster would be liable for the error and any loss that has been created in accordance with section 12, clause 12 of the Subpostmaster contract.
- 17.4 Paragraphs 17.2 and 17.3 are a repetition of the issue raised in section 19 - to which see Post Office's comments on that section.
- 17.5 Paragraphs 17.4 - 17.8 are a repetition of the issue raised at paragraph 10.1 - to which see Post Office's comments on that section.

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Post Office's response to section 18 – Error and fraud repellency

18.1 Section 18 of the Report considers whether Horizon is sufficiently error and fraud repellent. It raises 4 issues:

- a. Has Post Office sufficiently upgraded and developed Horizon over time?
- b. Does Horizon accurately record transactions processed in branches?
- c. Is Horizon resistant to power and telecommunications failures?
- d. Should Horizon work for every single user no matter their competence?

Developing Horizon

18.2 The Report states that Post Office has not sufficiently upgraded and developed Horizon over the years so that there is a situation where "errors and fraud that could possibly have been designed out of the system" did not happen. As a result, the Report alleges that Subpostmasters have been liable for losses that could have been avoided.

18.3 This conclusion is unsupported by any evidence and is incorrect.

18.4 The Report contains no analysis of the development of Horizon over the years. It is unclear on what basis the Report considers Horizon to be under-developed when there has been no consideration of Post Office's processes for reviewing and improving Horizon or of the upgrades that have been implemented.

18.5 The Report references a single example to support its opinion:

"18.4. A good example is an issue that has been raised by Applicants in regard to Giro transactions. This relates to Horizon operating in Recovery Mode, for example following power or telecommunications failures that resulted in the branch terminals freezing. In these situations the system goes through a complete reboot, then, when it has finally rebooted, a message appears on screen asking "do you need to recover any Giro transactions?"

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18.5. *A few Applicants have reported, when faced with that question, they usually did not have sufficient information to know whether or not the system needed to recover any Giro transactions. If they responded in the affirmative, the system asked for the details of the Giro transactions that needed to be recovered. As the user did not have the relevant details to hand (and could not access the data as Horizon was still completing its reboot process), they were forced into responding in the negative and hoping that was the correct response. This often resulted in the 'wrong' answer being entered and transaction errors being generated.*

18.6 It is noted that this example does not include any suggestion as to the improvement or upgrade that could have been implemented by Post Office to alleviate the above alleged issue. This example does not therefore support the conclusion reached in the Report.

18.7 Post Office in fact has a number of processes in place for regularly reviewing and improving Horizon. These include:

- a. **Incident and Problem Management processes.** Both of these processes ensure that where a branch reports an issue it is investigated and resolved. Where several instances of the same issue occur, then a problem record is created and the root cause of the issue is identified and fixed (ie to avoid further instances). The resolution of problems can sometimes be minor amendments to processes or can result in a change to the software code via the next release of upgraded software.
- b. **Operational reviews with Fujitsu.** These take place on a monthly basis across a number of different specialist teams in both Post Office and Fujitsu. The purpose is to monitor and review past performance, addressing any issues as required, and to prepare for known changes or upcoming events.
- c. **Operational reviews with the NFSP.** These have been in place for over 10 years and have operated on either a monthly or quarterly basis across this period. It has involved the NFSP Executives meeting with senior representatives from Post Office's IT Service, Network and FSC teams. A number of operational issues are raised via these meetings and actions taken to resolve and improve either Horizon or associated processes. Other systems are also discussed as and when relevant eg ATMs.

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- d. **Continuous Service Improvement.** This is a standard process that Post Office's IT Services operates with all of its suppliers. Post Office considers that Fujitsu are particularly good in this area and have over a number of years developed and introduced a number of improvements. This has included Fujitsu, by their own initiative, providing additional funds to be used by the Post Office for improvements to Horizon. Fujitsu were not contractually obliged to do this. The approach agreed with Fujitsu was to use NFSP's input to drive the improvement initiatives. Through this process and the tri-party working, including NFSP members' active involvement in conducting demonstrations and tests, resulted in improvements directly driven by the NFSP and funded by Fujitsu.

18.8 Ultimately, the Report appears to agree with Post Office's position in that it states at paragraph 18.8 that "*a number of enhancements have been made to Horizon following experience and feedback*". Whilst specific examples are not provided as evidence, this shows that Post Office is engaged in evolving its systems to improve user experience.

Accuracy of capturing transactions

18.9 At paragraph 18.9 the Report states that, in their opinion, for Horizon to be "*fit for purpose*" for all users it needs to record and process a wide range of products and services offered by Post Office and to enable Subpostmasters to investigate any cause of issues that may arise. The Report concludes that from the cases reviewed, although no specific examples are provided, that although the core software of the system works it may not provide an ideal user experience for less IT literate users.

18.10 Horizon is capable of capturing all information and processing all transactions if used properly. No system errors have been highlighted in the Report. Further, no examples or explanations are provided to suggest that Horizon, if operated in accordance with standard operating procedure, would not accurately capture transaction data.

18.11 In fact, of the cases that have been fully reviewed so far, not one has presented any evidence whatsoever that Horizon did not accurately record the transactions processed by Applicants or their staff.

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18.12 Horizon is designed to ensure the accuracy of transaction data submitted from branches.

Safeguards are in place to ensure that no transactions are lost, altered or improperly added to a branch's accounts:

- a. **Encryption.** Transmission of transaction data between Horizon terminals and the Post Office data centre is encrypted.
- b. **Net to Nil.** Baskets³ must net to nil before transmission. This means that the total value of the basket is nil and therefore the correct amount of payments, goods and services has been transacted – as the value of goods and service should always balance with the payment (whether to or from the customer). Baskets that do not net to nil will be rejected by the Horizon terminal before transmission to the Post Office data centre.
- c. **No partial baskets.** Baskets of transactions are either recorded in full or discarded in full – no partial baskets can be recorded.
- d. **No missing baskets.** All baskets are given sequential numbers (called "Journal Sequence Numbers" or JSNs) when sent from a Horizon terminal. This allows Horizon to run a check for missing baskets by looking for missing JSNs (which triggers a recovery process) or additional baskets that would cause duplicate numbers (which would trigger an exception error report to Post Office / Fujitsu).
- e. **Secure data store.** Transaction data is stored on a secure audit server. All transaction data is digitally sealed – these seals would show evidence of tampering if anyone, either inadvertently, intentionally or maliciously, tried to change the data within a sealed record.

18.13 In summary, Post Office remains confident that Horizon accurately records transaction data and the Report presents no evidence to change this conclusion.

Power and telecommunications failures

18.14 Paragraph 18.10 says that for Horizon to be effective, the system must be able to operate in areas where power and telecommunications reliability is a problem. It is noted that the Report does not offer a view on whether Horizon achieves this standard.

³ See paragraph 7.15 of the Part One Briefing for an explanation of 'baskets'

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- 18.15 For clarity, Post Office maintains that Horizon is capable of handling power and telecommunications problems.
- 18.16 In Post Office branches, Subpostmasters are responsible for power supplies and the cabled telecommunications line (see paragraph 5.6 in the Part One Briefing Report). Interruptions in power supplies and telecommunication lines are a risk faced by all IT systems. There are however recovery systems built into Horizon to prevent losses occurring where there is a power or telecommunication failure. The following is a description of the recovery process:
- a. Following a failure to contact the Data Centre and complete a transaction, the system would automatically carry out a retry and attempt to save the basket to the Data Centre again.
 - b. Following the failure of the second attempt, a message displays to the User informing them that there was a failure to contact the Data Centre and asking them if they wish to Retry or Cancel. It is recommended that Users only "Retry" a maximum of twice.
 - c. When the User selects "Cancel" this results in a Forced Log Out. This means:
 - i. Horizon would cancel those transactions that could be cancelled
 - ii. Horizon would then print out 3 copies of a Disconnected Session Receipt (one for the customer, one for branch records and one to attach to the bill to aid with recovery).
 - iii. The receipt would show transactions that are either recovered or cancelled. Those products considered recoverable must be settled with the customer in accordance with the Disconnection Receipt.
 - iv. If a transaction is cancellable then stock should be retained by the branch.
 - v. Horizon would then log out the active user.
 - d. The Subpostmaster should then make sure that, in accordance with the Disconnect Receipt, the Customer is provided with any funds due to be returned to them in accordance with the Disconnect Receipt.

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- e. The system would then display the Log On screen. The User may then attempt to Log On again.
- f. As part of the Log On process, the system checks the identity of the last Basket successfully saved at the Data Centre and compares it with the identity of the last Basket successfully processed by the counter. If the last basket saved in the Data Centre has a higher number than that considered to be the last successful basket processed by the counter, the recovery process at the counter would then repeat the process that the counter had carried out at the point of failure.
- g. A Recovery receipt would have been printed reflecting these transactions.
- h. A message is displayed to the user confirming that the recovery is complete. They then return to the Home screen. Depending on the transactions being conducted at the time, the user may be asked a series of questions to complete the recovery process.

18.17 It is noted that in Second Sight's Interim Report last year, it specifically looked into this recovery process following a telecommunications failure. Second Sight found that the recovery process worked but questioned the speed of the response from Horizon. As far as Post Office is aware, this conclusion is still valid and has not been revoked by Second Sight.

18.18 The Part Two Report states that there are cases where errors are more likely to occur when unusual sets of circumstances and behaviour are present. It is not clear what these circumstances or, in particular, the behaviour is and so Post Office cannot comment on this line of enquiry.

Fitness for all users

18.19 At paragraph 18.11, the Report notes that there are some people who are unsuited from the outset to using a computerised branch. It is not understood how this relates to the question of whether Horizon is fit for purpose. However, in general, there is an effective recovery process to manage power and telecommunication failures.

18.20 Horizon is operated by thousands of Subpostmasters, the majority of whom have not had any issue with the system or the effectiveness of it. Whilst a small number may find the operation

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of the system difficult, this does not make Horizon not fit for purpose. The subjective experience of a few people is not evidence that an IT system is objectively not fit for purpose.

18.21 For this assessment to be carried out the Report would need to identify some form of industry benchmark against which to judge Horizon. Also, the phrase "fitness for purpose" has a specific legal meaning and is therefore a subject on which Second Sight has no expertise to offer an opinion. The Report does not establish or seek to articulate any legal or industry benchmark and so its findings are unsupported by evidence or any robust analysis.

18.22 Post Office maintains that the fact that over 450,000 users have used Horizon since its inception and only 150 have raised a complaint to the Scheme shows that it is fit for purpose.

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Post Office's response to section 19 -- One-sided transactions

19.1 Section 19 of the Report comments on what it calls "*one-sided transactions*". These are transactions that the Report states have not fully completed all the constituent parts of the transaction. This is either because there has been a charge to the customer for goods or services but they do not receive the goods/service. Alternatively, a transaction is processed but the customer's bank account is not charged for the purchase.

19.2 The Report speculates that these situations could, somehow, give rise to a loss to a Subpostmaster. Thus far Post Office has not been presented with any evidence that there is a general issue with Horizon or Post Office's processes that could give rise to the above scenario.

Safeguards

19.3 The Report suggests at paragraph 19.2 that one cause for a "*one sided transaction*" is due to a telecommunications failure. Post Office accepts that telecommunications issues can give rise to "*one-sided transactions*". This is an inevitable risk of transacting business across the internet and affects all retailers and banks. Also like all retailers and banks, Horizon has recovery processes in place to rectify any "*one sided transaction*" errors. These safeguards are specific to particular products so it is not possible to explain them all in one document.

19.4 Communication failures can have two broad impacts. The main impact would be the type of interruption that is addressed by recovery prompts that are referred to at paragraph 18.16 of this Reply.

19.5 The other impact (which would affect the customer, not the Subpostmaster) would be where a debit card payment was interrupted after the bank had ring-fenced the customer funds for the payment but before the counter confirmed that the transaction was complete. This can lead to a situation where although there is no issue for the branch accounts, the customer is no longer able to draw down on funds in their bank account because they remain ring-fenced for the original attempted transaction. Banks have routine processes to clear down ring-fences within a couple of days or on an accelerated basis by specific enquiry. This would not affect branch accounts but could of course lead to customer complaints to their banks.

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No risk to branches

19.6 From a branch's perspective no discrepancy will arise from a one-sided transaction as the branch accounts are based on the information received by Horizon and not on the information held by a third party client.

19.7 If a transaction is recorded as completed on Horizon, then the accounts will also have recorded a corresponding payment from the customer or the handing over of cash or stock to the customer.

19.8 If Horizon records the transaction as failed, then the transaction will not complete on Horizon and no payment, to or from the customer, will be recorded. Likewise, as Horizon records the transaction as failed, the branch staff should not hand over any cash or stock to a customer.

19.9 Regardless of whether the client's IT systems record a completed transaction or not, the effect of the above is that the branch accounts will be in balance. The fact that there may be a discrepancy between Horizon and the third party client's records does not, as described above, change the branch's accounting position.

Branch awareness of this issue

19.10 At paragraphs 19.3 – 19.6 the Report states that the only way a one-sided transaction would be discovered is if the customer was to notify the branch. The Report goes on to suggest that where the customer has benefited from the transaction (ie they have received goods which they did not pay for) they would not be aware or would not say anything. Therefore the Subpostmaster would only be aware of the error if the customer disclosed it.

19.11 For the reasons stated above, this view is incorrect and, in any event, irrelevant as a branch will never be liable for an error caused by a "one sided transaction".

Conclusion

19.12 In summary, whilst the Report has yet to prove that this is a thematic issue of general application, Post Office has demonstrated that a "one-sided transaction" cannot give rise to a loss to Subpostmasters.

Confidential

Post Office's response to section 20 - Hardware issues

- 20.1 Section 20 of the Report makes some general comments and observations about Horizon terminals and other associated branch hardware. However, the Report does not present any evidence to support its speculations nor does it clearly identify any issues that may be common to many Applicants within the Scheme.
- 20.2 Post Office accepts that hardware problems can arise and that equipment is replaced from time to time. However, this is very dependent on the circumstances of an individual case and does not give rise to a thematic issue.
- 20.3 Further, the Report does not attempt to undertake any form of statistical analysis or industry benchmarking. In this area, it would be common to see an assessment of "mean time between failures" as a way of judging performance.
- 20.4 In any event, as described at paragraph 18.6 of this Reply, there is a recovery process in place to manage hardware failures.
- 20.5 Paragraph 20.1 of the Report highlights that some Horizon equipment is more than 10 years old. Whilst this may be correct, there is nothing to show that the age of the equipment is a cause of any losses.
- 20.6 At paragraph 20.2 the Report states that there is little routine hardware maintenance. This is correct but equipment is replaced as and when needed and this is industry standard practice.
- 20.7 Paragraph 20.3 states that many Applicants believe that faulty equipment could be responsible for the losses suffered. This is not correct and no evidence has been put forward to support the view that hardware issues have caused losses in branches.

Confidential

Post Office's response to section 21 - Post Office Audit Procedures

- 21.1 The Report says at paragraph 21.1 that Applicants were not provided with copies of audit reports, although it does acknowledge, at paragraph 21.2, that Post Office's current practice is to provide each Subpostmaster with a copy of any audit report. However, the practice of providing a copy of the audit report has always been in place.
- 21.2 Post Office is not aware of Applicants not being provided with copies of audit reports when requested however Post Office cannot categorically say that this has never happened in an individual case. Nevertheless, the lack of access to an audit report is not a cause of losses in a branch and would not exonerate a Subpostmaster from their contractual responsibility to make good losses caused in their branch that were revealed by an audit.

Confidential

Post Office's response to section 22 – Post Office Investigations

- 22.1 Paragraphs 22.1 to 22.6 of the Report provide Second Sight's opinion on the process that is undertaken by Post Office when it investigates criminal activity in branches.
- 22.2 This topic is outside the scope of the Scheme (which is to consider "Horizon and associated issues") and is also outside the scope of Second Sight's expertise. Second Sight, as forensic accountants and not criminal lawyers, are not qualified to comment on Post Office's prosecution processes.
- 22.3 This is highlighted by the statement in the Report that the focus of Post Office investigators is to secure an admission of false accounting and not to consider the root cause of any losses. This is incorrect – Post Office investigators first job is to establish what has happened in the branch.
- 22.4 As explained at paragraph 3.9 of this Reply, by falsifying the accounts (whether through the inflation of cash on hand or otherwise) Subpostmasters or their assistants prevent Post Office from being able to identify the transactions that may have caused discrepancies and losses. The first step in identifying a genuine error is to determine the days on which the cash position in the accounts is different from the cash on hand. Where the cash on hand figure has been falsely stated, this is not possible.
- 22.5 The false accounting therefore hides any genuine errors from Post Office and a Subpostmaster. It hides it at the time the losses occur and it remains the case now that Post Office is not able to identify which transactions may have caused the losses. The Report is therefore entirely incorrect in its evaluation of how Post Office approaches prosecutions. It is the Subpostmaster's (or their assistant's) false accounting that prevents Post Office from investigating the underlying losses not the attitude of Post Office investigators.
- 22.6 Given that this is a topic on which Second Sight can offer no expert opinion, this Reply does not comment on this section of the Report other than to confirm that it rejects all the Report's findings in it.

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**ANNOTATED AGENDA FOR SECOND SIGHT
30 SEPTEMBER 2014**

Attendees

Post Office	Second Sight
Chris Aujard Belinda Crowe Rodric Williams Andy Parsons David Oliver	Ron Warmington Ian Henderson Chris Holyoak

Aims for the meeting

1. Commercials – new fixed price linked to productivity
2. Scope – Second Sight clear on the limits of the scope of their engagement
3. Quality – Ensure SS understand that they need to operate as professionals engaging properly with the Post Office team and building the product quality from now on

1. Rate Of Delivery

SS told BC that they plan to clear backlog by October (producing circa 5 a week) and then revert to 3 a week. Ron has stated at WG and again to BC that under no contractual obligation to produce 3 reports. We need to place them under one. SS productivity high last week at 6 draft and 1 final reports

- Even with last week's spike (6 drafts and 1 final) you are only producing 1.9 a week (prior to that 1.4)
- Rate of delivery has been unacceptable as is repeated insistence you are delivering when you are not.
- Stated you are not under contract to deliver 3 cases a week – we will need to change that
- Think last face to face meeting showed that where there is no evidence you just need to write that up and move on.

2. Cost of proposals

Second Sight proposal of £3500 per report including, historic average report cost circa £5000. The split on which cases the piece rate would apply to was provided last night and at first sight appears reasonable.

- Cost has been high and proposal is still substantially too high
- Board and finance have agreed the move to a piece rate from 1 September
- Also worth noting that our press office have received an enquiry about the terms under which your services were procured.
- When engaged we expected a quality appropriate for an independent expert
- Utility of your reports to us is limited – not helping parties in mediation at all – needs to assist at mediation not general comment

Counter Proposal

- Willing to consider Fixed fee of £2500 a report
- But must be linked to rate of delivery, only invoice every 20 final reports produced, must produce 5 per week to qualify for full fee
- 15% of the fee retained until Post Office agrees satisfactory conclusion of SS's engagement
- [£20K bonus payment for successful completion and termination of all Second Sight work by 30 April 2015.]

3. Work Product

This is the opportunity to pin down all of the scope issues around the work for MPs and ensure Second Sight are clear on what they are contracted to deliver and what they are not.

- Not paying for any MPs work - you are engaged as forensic accountants to review cases in the Scheme
- If you think that issues need further investigation then we need an investigation plan that:
 - Identifies (ie clearly articulate) the issue
 - Set out your steps to investigate and reach a definitive conclusion
 - Set out how you will report the opinion

- Set out the time to investigate and report
- Specify your costs for doing so
- Even after all that though you may not be the right horse for the course
- And you should note that we may need to procure it in any event

4. Workflow engagement

SS engagement has been poor since 2012. They have failed to engage properly on the facts of cases and have been difficult to pin down to meetings requiring senior escalation. SS quality has consistently fallen short of expectations in both case reports and other reports.

- Been very disappointed in the manner of your engagement –two years you have failed to engage with the team on the substantive issues such as our feedback on your case reports
- This influenced the quality of the Part Two report which I was very disappointed in – unacceptable that we had to send out a 60 page response due to the inaccuracy of your work
- Also the quality of case analysis has not improved and frequently lacks intellectual rigour and logic – little proper evidence or critical reasoning and a worrying tendency to appear willing to be swayed easily by less than compelling and un-evidenced assertions or special pleadings, including where these contradict the findings of a Court process, eg M052 where you are suggesting we mediate as you now believe the applicant committed perjury, contrary to your initial conclusion
- Also now Part Two complete it appears to be used to provide un-evidenced solutions where SS have not been able to find the cause of the loss
- Tone in which you engage with the team is unacceptable for a professional service provider – expect it to improve from now on
- Very concerned about your behaviour at the last face to face meeting around your so called “thematic 18” – which is not a neither thematic or true. We will writing to you formally following the meeting along the lines of this draft

5. AOB

- *Confidentiality Agreements for two new staff*

Briefing Paper: SS Engagement 30/09/2014

Background

On 24/09/14, SS were sent a letter inviting them to attend a meeting on 30/09/14 to discuss concerns surrounding their delivery of services to Post Office and the Working Group.

Areas for concern included the quality; rate and manner of delivery; and value for money. A face to face meeting, for which this brief has been prepared, is scheduled for Tuesday 30 September 2014.

The following provides evidence for the points raised in the letter.

Rate of delivery

1) At the Working Group on 12th June, SS confirmed they would deliver a minimum of 3 reports a week with an increase in production to be expected within a few weeks of the meeting.

1.1 In addition, on 1st July SS signed a letter of engagement. This included a commitment to conduct services provided "In an **efficient** manner and with a view to ensuring that the costs of the scheme are reasonable".

- More than 15 weeks have since passed,
- 28 draft CRR reports have been produced, at an average of 1.9 a week ,
- Only 3 times have SS managed to produce and supply the number of reports they committed to - **despite telling the Working Group on 11th September that they were doing so,**
- At the last WG meeting they admitted to a seven week backlog (16.09.2014).

Looking at the first ten CRRs produced:

SS invoices show that prior to making the commitment on 12th June, SS had already begun work on five of these reports. Thus, SS should have been in an educated enough position to understand the level of work involved in producing a Final CRR and the likely timeframes involved. Despite this:

- They took an average of 11 weeks to produce from the time the Post Office Investigation Reports were shared: seven weeks to reach Draft and an average four further weeks to reach final.
- They were subject to an average three weeks slippage to reach draft, and two working days slippage to reach final.

However, it should be noted that most recently SS have produced:

- 1 Draft & 7 finals for week commencing 08/09/2014,
- 3 Drafts & 3 finals for week commencing 15/09/2014,
- 6 Drafts & 1 final for week commencing 22/09/2014,
- At the last WG meeting SS explained that they were now in a position to reduce the backlog and they expected in future to produce 4 reports a week and definitely no less than three.

Cost of proposals

2) Discussions around perceived value for money will likely focus on negotiating a piece rate for CRR reports going forward.

2.1 Again, referring back to the letter of engagement, signed on 1st July - this included a commitment to conduct services provided "In an **efficient** manner and with a view to ensuring that the costs of the scheme are reasonable".

- To date, SS have invoiced PO £650k for work undertaken within the scheme,

- The average cost of attributed to in SS invoices #86-93 for the production of the first ten final CRRs is £4.5k per report (though this is likely to be an underestimate due to gaps in invoice data),
- This equates to an average of just under £1k per page.

2.2 Second Sights Commercial Offer

Background

1. Second Sight will charge Post Office a fixed fee of £3,500 for each final CRR delivered to the Working Group (to include the delivery of both draft and final reports).
2. The fixed fee will be inclusive of participation at weekly conference calls and monthly face to face meetings
3. Out of pocket expenses will be charged at cost.
4. The fixed fee proposal will apply to all new CRRs where work starts on or after 1 September 2014.
5. Normal time and cost fees will be charged up to 31 August 2014 on all cases and subsequently for CRRs that are Work in Progress as at 31 August 2014.
6. Second Sight will absorb the costs of Kim Evans for the month of August 2014.

Comment

In the letter we have indicated the proposal is too high and productivity needs to be linked to fees.

Proposed Counter Proposal

- Fixed fee of £2500 a report – this takes account of the more junior resource being brought in to work on reports – which should result in a lower blended rate
- Agree the fee should cover Working Group participation and preparation.
- Out of pocket expenses at cost
- Any request for further work on a time and material basis must be submitted in writing to the General Counsel and must have specific prior written authorisation from the Post Office before work commences
- Invoices only to be accepted every 12 final reports completed – this should be every 4 weeks.
- 15% of the fee retained until Post Office signs off the satisfactory conclusion of Second Sight's engagement
- £20K bonus payment for successful completion of all Second Sight work by 30 April 2015.
- 5% reduction in fee per report not delivered at the agreed 3 per week schedule.
- Willing to review the cases commenced prior to 31 August 2014 – still awaiting a response to Belinda's request.

RED LINE on unit cost

- Not agree to any unit cost above £3000
- No ability to carry out any work other than report production

Quality

3) The quality of the CRR reports have been subject to minuted WG concerns over their style and quality.

3.1 On 07/03/2014, the WG agreed SS reports (namely M001 & M014) needed to be revisited to (amongst other concerns) "Ensure conclusions are reasoned and supported by evidence"

- Despite agreement, CRR's¹ do not provide detailed referencing for the sources cited - nor do they always provide supporting evidence or reasoning to substantiate the points made. For example:
- M022 states 'Taking all of these facts and circumstances into account, we believe that Post Office should bear a significant proportion of the responsibility for the losses that did occur'
- M009 states 'we do not find the argument by Post Office... particularly compelling.'
- M057 states 'we believe on the balance of probabilities, that the applicant was responsible for the loss'
- M048 states 'On the balance of probabilities we believe that the losses were caused either by user error or theft...'

¹ Based on analysis of the first ten CRRs - for which work had not begun prior to the meeting on 07/03/14

No explanation is given as to how the probabilities have been balanced. This is despite, on the 13/03/2014 the chair preparing suggestions for how could approach their work on claims. Guidance included "In giving its opinion on disputed issues of fact, SS should explain what standard of proof SS has applied, ranging from sure to probable/likely"

Issues surrounding the quality of reports have however continued. For example:

- On 1 May the Working Group discussed M022. A range of concerns about quality were raised at this point by Post Office, including that:
 - The Applicant would need the Part One report,
 - The depth of analysis was not sufficient,
 - A clearer articulation was needed of the factual basis upon which conclusions were made,
 - Neutral language needed to be used,
 - The evidence used needed to be clearly balanced with any counterpoint brought forward,
 - Un-evidenced statements needed to be avoided,
 - Raising real or implied questions needed to be avoided,
 - It was going beyond SS's areas of expertise.

3.2 CRRs also provide limited (or no) explanation or evidence for why a case is suitable for mediation. For example:

- Section 6 all of the first ten CRRs recommend mediation. Limited (or no) reasoning is given and limited (or no) reference is made to the preceding content in the CRR:
- The explanations given in M006, M022, M028, M048, M076, M127, simply state 'We consider that...' or 'In our opinion this case is suitable for Mediation and the following issue should be considered'.

3.3 More recently, an initial recommendation not to mediate case M052 in its 'Final' CRR was changed to a recommendation to mediate the case in a version 2A of the report. This latter recommendation seems odd given the detail included within the body of the report. Namely:

- An admission and subsequent verdict of guilty to 11 charges of theft (with a further 23 taken into consideration) at St Albans County Court.
- Acknowledgment that "the expiry of document retention periods has resulted in it no longer being possible to offer a fully evidenced opinion on a number of matters raised by the applicant".

The argument for mediation appears to be based upon the idea:

- The Applicant only pleaded guilty to avoid a potential custodial sentence,
- The Applicant then concocted a story as to why she stole the money to persuade the court she was guilty and,
- Had she not pleaded guilty, Post office's evidence would not have stood up to scrutiny in court.

However, the 'Final' CRR (superseded by V2A) acknowledges that "The adequacy or otherwise of the Post Office investigation process has no relevance in the light of the Applicant's guilty plea, since the evidence was never considered by the court. **Since this is the only substantive point raised by the applicant, there are consequently no issues for us to consider.** Issues relating to Post Office prosecution policy, and the conduct of any prosecution and whether or not it should be deemed 'safe', fall outside of our (SS) terms of reference".

The sentence in bold above, was removed from the CRR V2A.

Workflow engagement

4) There have been a number of incidences where SS has failed to properly engage in the manner we would expect of professional advisors. In particular, in relation to:

- The spot reviews (ten reviews),

- The detailed briefing notes (four sets),
- The feedback/comments provided on the draft CRRs (24 sets of comments).

4.1 Where revisions are made, they tend to reflect the more minor points of detail raised by the PO and do not always (fully) reflect or acknowledge the more major and substantive points raised by the PO in their response letters. For example:

- With regards to case M127, Post Office comment '...no evidence of theft or any other criminal wrong-doing has been found.' (Post Office Response Letter, p.10). The text of the Final CRR remains unchanged stating 'It is entirely possible that these two branches were subjected to such attacks, and Post Office's failure to investigate either of the two substantial shortfalls...means that these types of external theft may have contributed to the losses.' (M127, p.9). Although reference is made to 'elegant techniques', how such theft might work and why it could reasonably be expected to have occurred is not explained.
- The text of the Final CRR for M028 states 'It is unfortunate that further steps were not taken at the time to conclusively establish the cause of the losses. This appears to demonstrate a weakness in the support framework available to the Applicant' (M028, p.5). This does not acknowledge or reflect the point made by Post Office that 'The CRR does not explain what additional steps could have been taken to establish the cause of the losses conclusively. In fact Post Office went to significant lengths to investigate the cause of the shortfalls...' (Post Office Response Letter, p.10).

Overall Recommendations

In order for the CRRs to deliver against what is required from the Terms of Reference and Scheme documentation, it is recommended that:

- The production of remaining Final CRRs are subject to cost, quality and timeliness control,
- The level of assessment offered in the CRRs is increased, with the reasoning made clear and links provided to the relevant evidence,
- More detailed explanation is given as to why cases are (or are not) suitable for mediation with reference to the findings in the report,
- Explanation of alternative views is provided and an opinion given as to which is to be preferred and why,
- The precision of the referencing and citations is improved,
- Delivery is regularly measured against the Scope of Services and Scheme objectives,
- The level of case specific detail in the supporting invoices is increased.

END

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PRIVATE AND CONFIDENTIAL -- NOT FOR ONWARD TRANSMISSION

Ron Warmington & Ian Henderson
Second Sight Support Services Limited
(By email)

24 September 2014

Dear Sirs,

Second Sight's Engagement

As mentioned at last week's Working Group meeting, it is with regret that I am now compelled to write to you in connection with the meeting to which you, Second Sight, will be invited to shortly to deal with the delivery of your services to Post Office and the Working Group. As you know, the reason for my writing is that there have been a number of events over the last month (including your firm's rate of progress in dealing with case reports and the preparation of the Part Two Report) which have given us cause for concern.

Below I have set out, in general terms, the matters that I will be covering in my meeting with you next week. This should allow you sufficient time to consider the necessary remedies. Let me be clear, Post Office in no way wishes to fetter your independence, findings, or opinions you express, merely the manner in which they are being delivered.

1) Of most concern to us has been the rate of delivery of your case Reviews. At the Working Group meeting on 12 June you proposed a Schedule for the delivery of your Case Review Reports which the Working Group endorsed. The minutes record that you "confirmed that you will still be delivering a minimum of three reports a week with an increase in production expected within a few weeks." It is now 14 weeks since that meeting and in that period you have produced a total of 19 reports at an average of 1.4 a week. Only twice have you delivered your target for a week. The knock on effect for the prompt and cost effective resolution of the Scheme is obvious. Equally, you committed repeatedly to deliver the Part Two Report in March but we received it in August.

2) The manner of the delivery is also of concern to us. There have been a number of instances where Second Sight as a service provider to the Working Group, has failed to properly engage in the manner we would expect of external professional advisors. In particular, in relation to the spot reviews (ten reviews), the detailed briefing notes (four sets) and the feedback/comments provided on the draft CRRs (twenty four sets of comments) you have failed to explain why and where you disagree with Post Office in such a way that Post Office and, most importantly, other readers can understand your perspective on the competing positions. Indeed

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when Post Office has attempted to schedule meetings with you to discuss substantive factual issues of concern this has proved very difficult.

In future, I will expect a Second Sight Director to attend Post Office offices within a reasonable time of a meeting being requested, just as Post Office expects and receives from the other professionals it engages.

Finally, Post Office has concerns about the value for money it has received from Second Sight's services. Second Sight has been engaged continuously by Post Office. During that time, Post Office has invested a considerable amount of valuable time and resource to provide Second Sight with information, in some instances on more than one occasion, to assist your investigation into Horizon. However, since 2012, aside from attending Working Group meetings, Second Sight has only produced two, "thematic reports" and investigated and reported on twenty five applications the utility of which have not yet been established. You have now provided Post Office with a suggested new billing arrangement linked to report production and I understand that you have discussed your thinking with my team. Having carried out a preliminary review of your proposal it still requires further work. The rate is still too high and I will need you to link the rate of your case report production explicitly to your fees. Please respond to Belinda's outstanding question this week so that we can discuss your proposal when we meet.

I realise that there are always two sides to every coin and appreciate you may have a different perspective on these issues but as your client, albeit where there are others interested in your work product, our expectations are not being met. Post Office is not looking to fetter your independence or to undermine Second Sight's position, although the requirement to be independent does not absolve you of the requirements on you to deliver to the Working Group (including Post Office) the work which you are contracted to provide, and to report to and engage with Post Office on the management of your services: time, billing and quality.

Yours sincerely

GRO

Chris Aujard

General Counsel, Post Office Ltd

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148 Old Street
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paula.venneils
GRO
GRO

The Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

1 October 2014

Dear James,

Thank you for your letter of 17 September regarding the concerns Alan has expressed about how the Working Group meetings are proceeding and attendance at those meetings. For your information, Post Office General Counsel is the lead PO representative at the meeting and from time to time takes along members of his team who are involved in the case work, as do Second Sight.

As you note, the Working Group is independent, and it would be inappropriate for me to intervene as its proceedings, including who attends, are matters for the Group and the Chair. It is of course open to Alan to raise any concerns relating to Working Group meetings with the Chair.

Yours sincerely,

GRO

Paula Venneils
Chief Executive

CC: Alan Bates, Sir Anthony Hooper
www.postoffice.co.uk

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Dear Jo

INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME

I am writing regarding the recent media attention relating to the Mediation Scheme. This followed the disclosure of a report in relation to the Scheme prepared by Second Sight. Although the media coverage was minimal, I thought you might find it helpful if I provided you with further background as well as brief update on the Scheme.

To that end, I attach a note prepared by Post Office's General Counsel, our lead member on the Working Group.

As you are aware, the Scheme is overseen by a working group with an independent Chair. Given the group's independence, Post Office has always maintained that the Scheme should be allowed to run its course and the business of the Working Group should remain confidential in line with its Terms of Reference. Indeed our ability to challenge other stakeholders who do not respect that confidentiality is undermined if we ourselves have not done so. The attached note has therefore been drafted with the confidentiality of the Working Group in mind.

You will see from the note that we face a number of challenges relating to the Scheme. Whilst we will continue to manage the impact on our stakeholders, it is inevitable that there will be some public 'noise' as the Scheme progresses. And as Chris highlights, after over two years' investigation Second Sight have not found a systemic problem with Horizon and we believe this will continue to be the case. We will need to stand behind the extensive work we and Second Sight have undertaken investigating every case and defend our approach on the basis that we have acted impartially throughout and in good faith. In particular, when deciding whether or not to mediate a case, we must continue to be mindful of the need to properly protect both taxpayers' and Post Office funds.

I am very happy to brief you when we meet in a few weeks' time and my team will continue to keep your office briefed when any significant issues arise.

Yours

PV

Update on the Mediation Scheme – Current and emerging issues

Media interest

The recent media interest in the Mediation Scheme stemmed from the disclosure of the so-called "Part Two Report" and Post Office's response to it. The Report is a technical document, prepared by Second Sight as a streamlining measure in order to deal with (and describe) complaints, or themes, that are common to a number of cases. The idea was that the existence of such a document would enable their case-specific reports to be very brief.

In our view, the Report was inaccurate in a number of areas. It also contained no clear statement of the evidence upon which many of the opinions expressed in it were based, and a commentary on matters beyond the scope of the Scheme and/or Second Sight's professional expertise as forensic accountants. As Second Sight failed to take on a number of our comments and corrections in the final Report, we wrote to the Report's recipients to advise them that we did not endorse it. In our view to let the Report stand unchallenged had the potential to raise the expectations of applicants unduly and confuse matters at mediation. In relation to Horizon, Second Sight's general conclusion is that the system appears to be fit for purpose for the vast majority of users. This is a positive conclusion and is consistent with Second Sight's finding in their interim report. However the Report qualifies this by suggesting that Horizon could not be described fit for purpose for a limited number of users (for example, those who were technologically inexperienced) in some limited specific circumstances. Post Office has rebutted that qualification, as it is predicated on a number of factual inaccuracies in the Report, and we do not accept that the limited capability of a small number of users leads to a conclusion that the system itself is flawed.

It is disappointing that this report was disclosed to the media, breaking the confidentiality of the Working Group's proceedings. However, coverage was limited and we have now issued our comprehensive response to the Second Sight report to those applicants who received Second Sight's report. This has, so far, not been disclosed although as more applicants are issued with it the risk increases. We have a media handling plan in place.

Scheme progress

Of the original 150 applications, 120 remain in the Scheme. Although Post Office has resolved 12 cases prior to mediation it is fair to say that progress has not been as fast as any of us would have liked. Thus far, only 14 cases have been passed for mediation of which three have been mediated.

Post Office has dedicated considerable resources to the Scheme and we have now completed our investigation into over half of the cases. So far we have found nothing in those cases which has raised concerns about faults with the Horizon system, the safety of convictions or Post Office's liability for the losses being claimed by applicants.

We are also working closely with Second Sight to try to drive up their output. However, both their productivity and the quality of their work continue to cause us concerns.

Future challenges

The fact that we have, as yet, found nothing to concern us about the Horizon system is good news. However, this creates a number of challenges in relation to the Scheme and applicants that, despite the confidentiality of the cases, will undoubtedly surface and attract some attention as cases are concluded. Specifically:

- of the cases resolved, we have settled with a de minimus impact on our accounts and it is likely that this will continue to be the case. This is at odds with the expectations of many of the applicants, some of whom clearly expect large sums in compensation. However, Post Office cannot and will not pay compensation where it bears no liability for losses claimed by applicants.
- we are investigating all cases thoroughly, and continue to consider each case on its merits. However, mediation is not the forum to overturn a criminal conviction. Post Office cannot mediate cases where the facts have already been determined by the Courts and where we have found nothing to cause us (or our criminal lawyers) concern about the safety of the conviction. It could therefore be the case that we decline to mediate any 'criminal' case, around a third of the total caseload.
- each mediation costs between £20-30k and it would be wrong to mediate cases where there is not, in our view, a reasonable prospect of resolution.

It is therefore inevitable that there will be a considerable number of applicants who remain dissatisfied at the end of the process. Post Office's position is that applicants will have the benefit of a full investigation and Second Sight review of their case and will hopefully leave the Scheme with a better understanding of the circumstances of their case than they had previously. It remains to be seen whether this is enough.

We are and will continue to manage the potential fallout from the issues highlighted above. It remains the case that Horizon is used by over 78,000 people across our 11,500 branches and successfully processes over 6 million transactions every day. After what now amounts to over two years' investigation, Second Sight have not found a systemic problem with Horizon. If this continues to be the case, and we have every reason to believe it will, then we will need to stand behind the evidence of the extensive work we and Second Sight have undertaken investigating every case and, whilst not being drawn on individual cases, defend our approach on the basis that we have throughout acted impartially and in good faith whilst being mindful of the need to properly protect both taxpayers' and Post Office funds.

CHRIS AUJARD

POST OFFICE GENERAL COUNSEL

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Justice For Subpostmasters Alliance

Sir Anthony Hooper
Chairman
Initial Case Review & Mediation Scheme
148 Old Street
LONDON
EC1V 9HQ

10th November 2014

Initial Case Review & Mediation Scheme

Dear Sir Anthony

I am writing to you to convey JFSA's concerns over the current position and direction of the Initial Case Review & Mediation Scheme.

JFSA is now of the opinion that the Scheme has strayed so far from the original purpose for which it was intended, that the few Applicants who have actually reached a mediation meeting through CEDR have expressed such disappointment with the Scheme, that at least one Applicant has withdrawn.

JFSA requests it noted that:-

1.

As has been stated on many occasions, it is JFSA's view that it is not the role of the Working Group to approve which cases go to mediation for the following reasons which are contained within the main document that each of the Applicants to the Scheme received. Within it they were promised:-

- *"Post Office now wishes to offer a Scheme to Subpostmasters so that individual Subpostmasters have an opportunity to raise their concerns directly with Post Office."*
- *"The purpose of mediation is to give each side the opportunity to explain their position."*
- *"The Scheme is being supervised by a Working Group comprising of representatives from Post Office, Second Sight and the JFSA. The Working Group's role is to ensure the Scheme is run in a fair and efficient manner. It will also be involved in making decisions on how particular cases* should be managed through the Scheme. To ensure its impartiality, the Working Group is seeking to appoint an Independent Chairperson."*

- * The "*particular cases*" are identified in the main document as those that *"If the information provided by the Subpostmaster is insufficiently detailed or not clear, or information is not provided promptly, it may mean that a case is not investigated or mediated."* Or, *"If there is insufficient information for Second Sight to investigate a case, the case may not be investigated or may not proceed to mediation."* – It is these cases, and only these cases, that JFSA is prepared to discuss at the Working Group.
- *"As a result of this investigation, Second Sight will produce a Case Review summarising its findings and a recommendation on whether the case is suitable for mediation."*
- *"The Case Review should bring clarity to many cases."*
- ***"What is Second Sight's role?*** - *Second Sight was appointed by the Rt. Hon James Arbuthnot MP and Post Office to independently review and report on the Horizon system and any associated issues. As a part of the Mediation Scheme, Second Sight will work with you to investigate your case. It will then liaise with Post Office to obtain further information before giving an assessment of your case."*
- ***"Will my case definitely be referred to mediation?"*** - *If your case is suitable and you provide accurate, detailed information to Second Sight, then this is likely in most circumstances."*

2.

That in light of a decision JFSA understands was taken at the October Working Group meeting in London, after JFSA had left, and which JFSA was informed of during the telephone meeting on 30th October 2014, with regard to a number of cases now being held back until a revised Part Two report has been prepared by Second Sight. Due to the concern that the content of the revised report may affect all cases, JFSA is of the opinion that no further cases should be released in draft form until that revised report has been produced and those cases measured against it.

That, dependent upon the content of the yet to be revised Part Two report, it should be recognized that it may be necessary to re-examine earlier cases where Second Sight has already arrived at a decision as to whether or not a case was suitable for mediation.

3.

A letter dated 14th October 2014 from Chris Aujard, Post Office's General Council, to Kay Linnell, one of JFSA's advisors, in which Post Office states that it has a statutory

duty in criminal cases to assess any material which might undermine a prosecution or assist a defendant, and asked Kay Linnell to check her records to see whether or not she held such information.

Having made such request of this JFSA advisor, JFSA is presuming that Post Office has itself undertaken its statutory duty and made similar requests to all its employees and its subsidiaries/contractors who have been involved in any way with a case leading to a prosecution of any Scheme Applicant.

In light of this request, JFSA is also presuming that Post Office has provided the independent investigations firm, Second Sight, with all documents held by Post Office and its subsidiaries/contractors relating to the cases Second Sight are investigating, and when prosecution files are requested by Second Sight, these too have been provided in order to verify all documentation was in order (An example being M030, where such information would bring clarification to point 6 of the exercise undertaken by SAH.).

4.

That, the current approach of concentrating purely on where the money went, should not be the sole deciding factor used by Second Sight in considering whether a case is suitable for mediation. The agreement given to Applicants stated that:-

- *"First, your case must relate to a financial loss or unfair treatment that you believe you have suffered as a result of the Horizon system or any associated issues."*
- *"The Scheme is open to any Subpostmaster who believes they have suffered a loss or been treated unfairly as a result of the Horizon system or any associated issues."*
- *"Second Sight will seek to determine whether there was a problem with Horizon (or any associated issue) that had an impact on you. If so, Second Sight will also try to determine the scale and scope of that impact on your case."*

Effectively, all the systemic failures/thematic issues that affect a case should be used in weighing the suitability of a case for mediation. The issue of where the money went has seemingly become the sole deciding issue as to whether or not a case is suitable for mediation, to the exclusion of the systemic failures/thematic issues.

Yet in many cases it is the systemic failures/thematic issues which have led to a monetary issue and whilst, either due to the passage of time or the lack of documentation, it is not always possible to establish what has happened to the money, it is far easier to prove how the systemic failures/thematic issues of a case played such an important role.

Then what is going to happen about all the cases where there was only unfair treatment due to associated issues with Horizon but there was no monetary issue?

Somehow the whole spirit of the Scheme that JFSA agreed to at the outset and planning stage has totally disappeared. The further the Scheme progresses, the more entrenched and defensive Post Office has become, and the original concept of actually seeking the truth has long since been abandoned, replaced by denial and a culture of blaming the Applicant time after time. The underlying fact that it was the failure of Post Office to correct the shortcomings of their Horizon system and its associated issues is ignored by Post Office again and again.

It is unfortunate that it has become necessary to voice these points, but continuing without raising these issues would be disingenuous to all those victims of Post Office who believed Post Office were sincere about addressing their cases.

The question now has to be asked, is there any point in continuing with the Scheme which is just being turned into a sham by the actions of Post Office?

Alan Bates
Chairman
JFSA

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The Rt Hon James Arbuthnot MP
House of Commons
LONDON
SW1A 0AA

5 November 2014

Dear James,

Re: Complaint and Mediation Scheme

I wanted to follow up on our telephone conversation on 28 October. You raised a number of concerns over Post Office's engagement with the Scheme and I am grateful to you for doing so. I am also grateful to you for accepting that there are two sides to every story.

As we discussed, Post Office has gone to great lengths to respond to the issues raised by Members of Parliament, the Justice for Subpostmasters Alliance (JFSA), and now individual applicants about the Horizon system.

You will recall that both JFSA and Second Sight were involved in the design of the Scheme, the establishment of the Working Group and the appointment of the independent chair.

To date, Post Office has investigated over 100 cases and is on course to complete all investigations by Christmas. We provide the funding and Secretariat for the Working Group and we also provide funding for applicants to obtain professional advice in preparing their complaints. On any reasonable view, the measures we have taken cannot be characterised as being suggestive of bad faith.

As I said when we spoke, we have found no evidence of a fault with Horizon in any of those cases. I am clear that this is not cause for complacency and we will be as rigorous in investigating the remaining cases as we have been with those we have investigated.

However, Post Office cannot ignore these investigation findings in determining its approach to mediation in each case. In particular, Post Office cannot be expected to accept responsibility for matters where there is no evidence that it is at fault and where, instead, errors (and sometimes dishonesty) on the part of an applicant or their staff have been shown to have caused or contributed to the losses in the branch. To my mind, that is not a legalistic but a fair-minded and rational approach.

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I am also concerned at the size of some of the claims for compensation, many of which are unrealistic or opportunistic or both. Especially in the absence of evidence of a fault with the Horizon system, this sort of claim can only serve to weaken the prospects for resolution for the applicants. Whilst Post Office is keeping an open mind to all possibilities for resolution, with compensation being one, the Scheme is not and has never been a compensation scheme. Whilst I realise that speculation about Horizon continues, Post Office must base its position on substance and facts and the need to ensure it spends taxpayer money prudently.

However, I can assure you that where the facts and the applicants' expectations offer a reasonable chance of resolution, the Post Office has and will continue to enter into those discussions positively and try to achieve a mutually acceptable resolution.

I also believe that the success or otherwise of the Scheme does not rest solely with Post Office. It seems that, despite the agreement of all parties on the need for confidentiality, that commitment is not being honored and this has the potential to undermine the Scheme. Similarly it is regrettable, as you say, that JFSA is not now fully participating in Working Group discussions as it undermines the role of the Working Group which it played such a key part in establishing.

Given that some people may have been expecting that a fault with Horizon would be found it is perhaps not surprising that they may be disappointed. However, in view of the considerable effort Post Office has gone to in establishing, funding and supporting a Scheme that JFSA and Second Sight helped to design, I am naturally disappointed to hear the concerns you set out. However I am confident that Post Office has, at every stage of the process, acted in good faith in taking forward the work of the Scheme. Indeed, it is not at all clear to me what more Post Office could reasonably have done.

Nevertheless, I have listened to your concerns and will reflect on them very carefully.

Finally, further to our discussion about your letter of September 4th, I can confirm that I have asked Angela Van Den Bogerd to look into the case. Once her enquiries are complete, one of the team will be in touch with your office to discuss next steps, including the possibility of a meeting.

I look forward to our meeting on 17 November and I imagine your office will be in touch with mine with a suggested agenda and a list of attendees in due course.

Yours sincerely,

GRO

Paula Vennells
Chief Executive

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