



Rt Hon Liam Byrne MP
Chair of the Business and Trade Committee
House of Commons
LONDON
SW1A 0AA

16 February 2024

Post Office Ltd
100 Wood Street
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Dear Mr Byrne,

Post Office and Horizon – Compensation: Follow up to [Q159] and [Q176].

In my last letter of 5th February, I committed to provide you with a further update on our response to [Q159] and [Q176] posed by the Committee. I am happy to provide the following detail on those questions, which the Post Office Inquiry team have collated alongside their ongoing work to ensure Sir Wyn Williams' statutory inquiry is fully supported in understanding what happened in the past. I emphasise that this work is ongoing and the Post Office's understanding of the historic position may change as its work progresses. The response provided below is based on Post Office's understanding of relevant terminology and reporting processes as at the date of this letter.

To give an idea of the scale of the disclosure process, for this topic alone the Post Office Inquiry team have reviewed in excess of 5,000 documents spanning a period of almost two decades. I would like to emphasise that the responses provided are not intended to pre-judge Sir Wyn's work, rather they form an assessment of Post Office alone to assist the Committee in its work. As well as the evidence disclosed by Post Office, Sir Wyn also has access to documents held by Fujitsu, other organisations and individuals, which will enable him to take a fully formed view on what happened in the past.

Background of Corporate History and Approach to Post Office Limited's response to the questions

It is important to note that information relevant to the questions raised by the Committee will emerge during the course of Phase 5 of the Inquiry. In particular, in Phase 5, the Inquiry will be hearing for the first time from a number of senior people who were previously in the business (such as the then-CEO, Chair, Company Secretary etc.), including those pre-dating the effective 2013 cut-off for Phase 4. A significant number of the themes the Committee is considering will also be considered in the hearings starting in April 2024, based on evidence not yet available to Post Office, or which has not been made public by the Inquiry. In responding to your questions, Post Office has focused its investigations on what is recorded in the available minutes of Post Office's Board.

As would be expected with a then new system such as Horizon, POL understands that operational bugs, errors or defects (e.g. lines of code within the system that did not result in the desired functionality – "BEDs") were monitored, managed, tracked, and fixed by the business by its IT function (often working with Fujitsu to do so) and, so far as contract management was concerned, through its commercial function.

This response has sought to identify those BEDs referred to within Board minutes or papers irrespective of whether they would now be categorised as meeting the "issues" and/or "concerns" threshold described below. For example, a BED that did not affect branch accounts would not do so.



Post Office has interpreted “issues” and “concerns” (as raised by Mr Mangnall and Mr Gullis) to mean the same thing, namely the receipt of information in relation to the operation of Horizon that would have been sufficiently significant to (i) impact a decision whether or not to prosecute a sub-postmaster; (ii) prompt disclosure of the information on the basis that it would meet the relevant legal test for disclosure to the defence ; or (iii) impact on a decision as to whether a perceived liability due to Post Office, as identified through the Horizon System, was properly recoverable in law via a civil claim against a sub-postmaster.

The Committee will of course be aware that for some of the period in question Post Office and Royal Mail was one Government-owned corporate entity. The approximate equivalent of today’s Post Office was, from 1987, Post Office Counters Limited a wholly-owned subsidiary of the larger group, which then became Post Office Limited in 2001, then became independent from Royal Mail Group plc in 2012.

In approaching these questions, Post Office has reviewed Board minutes and papers that it has access to in order to answer the Committee’s questions. It is important to note that Post Office’s records for the period up to separation from Royal Mail are not complete. This is because Royal Mail, rather than Post Office, retained many of Post Office’s corporate governance records at the point of the separation of the two businesses in 2012. Some of these records were archived by Royal Mail at the Postal Museum and Post Office has been able to access these materials. Post Office understands that Royal Mail had a 6 year document retention policy and any other documents that it retained post separation, including electronic documents, were likely destroyed in line with that policy. Without knowing what materials are missing, it is not possible to provide an assessment of the potential gaps in the Post Office’s knowledge of this period. It is therefore not possible, at present, from the documentation Post Office has access to, to concretely confirm whether any “concerns” or “issues” as defined were at any one moment raised to the Board during this period of time.

When issues with Horizon were first raised with the Post Office [Q159]

I nevertheless want to provide the Committee with our understanding of the timeline as to how the existence of BEDs were presented at Board level:

- The national rollout of Horizon began in September 1999, and during November 1999 and December 1999, Post Office conducted an internal audit of Horizon problems and problem management reporting. Amongst other things, the audit found that the number of BEDs generated by those branches operating Horizon was a cause for concern, but that the pause in rollout had resulted in a reduction in the level of BEDs as branch managers became more familiar with operating the system. It appears that where issues were raised, Post Office sought assurance from Fujitsu that the issues had been addressed, alternatively to the extent possible, it delayed wider rollout of Horizon to branches.
- A Board paper drafted for the 11 January 2000 Board meeting provided an update on the “Horizon Programme”. In that update, it was noted that under the agreement between Fujitsu (then ICL) and Post Office (signed on 28 July 1999), Contractual Acceptance of Horizon was scheduled to happen by the end of August 1999 however, it was noted in late September 1999 that Fujitsu was *“judged to be failing on three criteria.”*



- Post Office took active measures to analyse these criteria and only downgraded an issue where the Board felt that appropriate progress had been made. The Board noted the final acceptance date under the contract for the design and build of Horizon was 15 November 1999 and that Horizon would only be accepted if it met the necessary service standards.
- It was noted that the system had been successfully rolled out to many branches prior to Christmas 1999 and that, subject to further discussion on Fujitsu's performance in relation to the three criteria, a final decision on the resumption on the roll-out would be taken mid-January 2000.
- The Board minutes from 11 January 2000 noted that after reviewing the risks, on 24 September 1999, the decision was made to grant conditional acceptance to Fujitsu, subject to additional obligations. The Board minutes note that rollout of the system was due to recommence on 24 January 2000, with a "*great deal of work*" having been undertaken to rectify issues with system stability; accounting integrity; and the provision of support to offices.
- A February 2000 Post Office Board Chief Executive's Report noted that the roll-out of Horizon was continuing, with more branches fully operational and that "the previous system freezes, data integrity and helpline issues have been addressed, through contract changes".
- Generally, between 2000 and 2009, the processes for monitoring, managing, and resolving remaining BEDs appears to have operated satisfactorily. Post Office's work on reviewing how the process of resolving BEDs operated and the extent to which BEDs were reported up to the Board is ongoing and forms part of the matters under consideration by the Inquiry. As at the date of providing this response, including for the reason set out above that many of the Board papers for this period were retained by Royal Mail not Post Office, it has not been possible to identify the mechanism by which the Board was updated on the resolution of BEDs in relation to Horizon or the level of detail that was provided within these updates.
- In May 2009, Computer Weekly ran an article on Horizon. This told the stories of seven sub-postmasters who alleged that issues with Horizon had caused unexplained discrepancies within their branch accounts. Not long after, several MPs (on behalf of their constituents) raised concerns about the integrity of Horizon. Pat McFadden MP, then Minister of State in the Department for Business, Innovation and Skills, responded to a Parliamentary Question from Brooks Newmark MP. The question asked whether the Minister had received reports about errors within Horizon that had led to 'false' accusations of fraud. Mr McFadden referred the matter back to Post Office, which provided assurances to Mr Newmark over Horizon's robustness and integrity.
- In November 2009, Alan Bates formed the Justice for Sub-postmaster' Alliance (JFSA) to represent sub-postmaster who had complaints about the Horizon system. In December 2009, James Arbuthnot MP (now Lord Arbuthnot) met with Post Office and the National Federation of Subpostmasters. This followed Lord Arbuthnot raising concerns about the number of sub-postmasters accused of fraud who had claimed that discrepancies in the accounts for their branches had been caused by Horizon. In the



meeting, Post Office broadly explained Horizon's functionality and again supported its robustness and integrity.

- In 2010, Rod Ismay, then-Head of Product and Branch Accounting, produced an internal report that was received by several members of the Board. The report concluded that Horizon remained robust. Throughout the remainder of 2010, Post Office considered and responded to allegations levelled by JFSA about the integrity of Horizon.
- In September 2011, *Private Eye* published an article detailing alleged discrepancies caused by Horizon. The article stated that a class action had been launched by 55 sub-postmasters. This was later clarified to mean that Shoosmiths Solicitors had contact with 55 other people with similar allegations. In mid-2011, Shoosmiths represented a former sub-postmaster in a claim for wrongful termination due to issues with Horizon and Post Office's own processes. While the claim was struck down, Shoosmiths subsequently issued Post Office with letters before action in relation to four similar claims. It advised that they were also working on 85 further cases. These claims were broadly summarised for the Board in Significant Litigation Reports.
- Pressure from MPs continued to build throughout 2011 and into 2012. On 23 February 2012, James Arbuthnot MP emailed Alice Perkins (then Chair of Post Office) and to request a meeting to discuss Horizon. In his email he expressed scepticism regarding Post Office and the National Federation of Subpostmasters' (NFSP) position that there was nothing wrong with Horizon and urged Ms Perkins "to look afresh at the matter, rather than accepting that there should be a closing of ranks around the computer."
- The 13 March 2012 meeting with Mr Arbuthnot was attended by Ms Perkins and Alwen Lyons (then Company Secretary of Post Office). A note of the meeting records that Ms Perkins explained that Horizon had been independently reviewed by several entities including Royal Mail Internal Audit and Deloitte. When Mr Arbuthnot was not convinced by this, Ms Perkins offered to consider a review by an IT expert to look at the integrity of data and discrepancy of errors, along with training and support for sub-postmasters on account balancing. It was agreed that a further meeting would take place on 28 March 2012. Notes from this 28 March 2012 meeting have not been located.
- On 17 May 2012, Ms Perkins, Paula Vennells (CEO), Alwen Lyons (Company Secretary), Lesley Sewell (Chief Information Officer), Angela Van den Bogerd (Head of Network Services), and Mr Ismay met with Mr Arbuthnot and Oliver Letwin MP, then-Minister of State for Public Policy. While Post Office does not have any notes from this meeting, it appears from subsequent correspondence that Mr Arbuthnot recommended that Post Office instruct a forensic accountant to investigate the sub-postmaster cases that had been raised by MPs. Further, he agreed to facilitate a further meeting in June 2012 with other MPs who had constituents affected by Horizon.
- Following this meeting, on 22 May 2012, Ms Vennells asked Susan Crichton, then General Counsel to Post Office, to find a suitable forensic accountant. On 23 May 2012 Ms Perkins and Ms Vennells updated the Post Office Board that the meeting with Mr Arbuthnot and Mr Letwin had been a success, that there would be a further meeting with other MPs and that Post Office had agreed to use "a forensic accountant to investigate the system and give further comfort."



- In July 2012 Second Sight were appointed to independently investigate Horizon. At a 1 July 2013 Board meeting, the Board was provided with an update on the Second Sight review of the system. The then CEO, Ms Vennells explained that Horizon, like any large computer system, would occasionally have anomalies and two were known of over recent years.
- The minutes of a September 2013 board meeting show that the Board was aware that sub-postmasters were alleging the Horizon system was defective but in the same update were informed that the Second Sight Report (published 8 July 2013) had found no systemic problems with Horizon and that following the Second Sight report Post Office had launched a Mediation Scheme on 27 August 2013.
- Whilst the Report found no suggestion of systemic issues with Horizon, it identified several BEDs within the system. The Board was advised of the potential 'risks' with Horizon and how this may impact on insurance coverage, particularly under the Directors & Officers policy in a paper prepared by Womble Bond Dickinson (then Bond Dickinson) dated 7 August 2013.
- An initial notification to AIG (Post Office's insurers who were then known as Chartis) was made on 9 September 2013, advising that there was a potential that there would be forthcoming civil claims against Post Office brought by sub-postmasters who believed they had been the victims of BEDs caused by Horizon.

When Fujitsu first raised concerns with the Post Office [Q176]

We have reviewed the Board minutes and papers that are available, noting that some may not be (see above), for the following: (i) Fujitsu appearing before the Board (ii) Fujitsu documents (including correspondence) raising "concerns" with the Board included within Board packs; and (iii) references to Fujitsu within Board packs where it may indicate that it raised a "concern".

From the review described immediately above, Post Office has not so far been able to identify any documents between 1999 and 2013 that suggest that Fujitsu raised "concerns" to the effect that the Horizon system caused or may have caused discrepancies in branch accounts in relation to sub-postmasters who had been subject to criminal prosecution, civil recovery and/or contract termination.

I hope this response is helpful to the Committee's work. I repeat my commitment to you that I will update your Committee on what is an ongoing process of understanding more about the past while we fully support the vital work of Sir Wyn's Inquiry.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Nick Read".

Nick Read
Chief Executive, Post Office Limited