

Witness Name: Martin Charles George Ferlinc

Statement No 1: WITN08610100

Dated: 11/05/2023

POST OFFICE HORIZON IT INQUIRY

**FIRST WITNESS STATEMENT OF
MARTIN CHARLES GEORGE FERLINC**

I, MARTIN CHARLES GEORGE FERLINC, will say as follows

Introduction

1. My name is Martin Charles George Ferlinc and my date of birth is **GRO**.
My home address is **GRO**.
2. This witness statement is made following a request, inviting me to assist the Post Office Horizon IT Inquiry under Rule 9 of the Inquiry Rules 2006. The request was dated 3 April 2023.
3. I am a former employee of Post Office Limited, employed in various roles from October 1979 until I left the business in March 2011.
4. During my career, I experienced several organisational reviews which sometimes involved changing the name and/or status of Post Office e.g. Post Office Counters, Post Office Counters Limited, Post Office Network, Post Office Limited. As I am unable to recollect the precise timeline of each change with certainty, I have used the term Post Office throughout my statement.

5. Following on from paragraph 4 above, the terms used to describe the range of branches and their staff changed many times while I worked for Post Office e.g. branches with employees were called branch offices (“BOs”), crown offices or directly managed branches at various points in time. For the purpose of my statement, I refer to them as crown offices and crown office staff. Some sub-post offices were managed by a franchise partner but people in charge of sub-post offices were generally called postmasters, sub-postmasters, sub-postmistresses or agents at various points in time. For the purpose of this statement, I have used the term sub-postmasters. Where I refer to branches, I am referring to all post offices i.e. the collection of crown offices and post offices run by franchisees and sub-postmasters.
6. As my roles, job titles and reporting lines changed several times over a career spanning over 31 years, exact years of events, changes in my roles and reporting lines have not been easy to recall or may have been misremembered but I have recorded dates that I believe to be correct to the best of my knowledge. Similarly, any reference to the names or job titles of Post Office colleagues during that period has been done to the best of my recollection.
7. As I have not worked for Post Office since March 2011, this statement has been made without access to any documentation other than that provided by the Inquiry.
8. While over 40% of the documents provided to me were written or dated after I left Post Office, and reflect updated processes or opinion, some of these have helped trigger memories of processes in place prior to March 2011.

9. The information I have provided in this statement uses my own words (without legal representation) and is based on my own personal memory of events, which I have tried to recall to the best of my ability.

Relevant Background

10. I have been asked to provide a brief outline of my professional background and an overview of relevant roles during my career at Post Office.
11. Post Office – Postal Officer (Counter Clerk) 1979 – 83. I joined Post Office in October 1979 after the completion of A Levels. For the first few years, I worked at different crown offices (in the Nottingham area) as a counter clerk. In the last year or two, my responsibilities included the role of completing the branch's cash account (cash account duty).
12. Royal Mail Letters (Mails Circulation Officer) 1983 - 1986. It was quite common at that time for counter clerks to gain experience of head office roles, after a few years of working in a crown office. I was selected to join the Mails Team (Royal Mail) in Nottingham.
13. Post Office Assistant Branch Manager 1986 - 1987. I opted to return to Post Office during a Royal Mail Group reorganisation (where Royal Mail Letters, Parcelforce and Post Office Counters were being separated into different business units). I was initially placed into a crown office assistant manager type role, with a combination of counter, back office and cash account duties.

14. Post Office Branch Manager 1987 - 1989/90. At some point (possibly around 1987), I was promoted to the role of branch manager at the crown office where I was already working, reporting to the Area Manager (Nottingham).
15. Audit Manager (Nottingham) 1989/90 - 1993. My memory is that there were plans to close the branch where I was working, as part of a crown office closure programme. Following a discussion (rather than an interview), I was invited to move to a vacant Audit Manager role in Nottingham, before my branch closed. This was either in 1989 or early 1990. My new role reported to the District Audit Manager (North Midlands District), from whom I received on the job training. As Audit Manager, I was responsible for scheduling audits of branches in my area but the majority of my time was spent at branches, performing audits. These audits were primarily to verify assets physically on hand at the branch and involved constructing a cash account to the last declared figure, which utilised my experience of performing the cash account duty at a crown office. I had two team members and audits that I attended included one or both of them.
16. Audit Manager 1993 - 1995. As part of a major business reorganisation in 1993 (structuring Post Office into seven regions), job selections were informed from an exercise called "Skills Analysis". I was identified as suitable for one of three audit manager roles in the Midlands Region and reported to the newly appointed Regional Audit Manager (Midlands). I worked from an office in Derby (with a small team of auditors based in Nottingham, Derby and Stoke). The role was essentially the same as the one in the North Midlands District but with an expanded area and more team members. I vaguely recall attending a one-week internal audit course during the 1990s. I do recall the course being held in

Chesterfield and provided by Post Office's Internal Audit Team (National Audit) but cannot recall the dates involved.

17. Regional Audit Manager 1995 - 1998/99. Following the departure of the Regional Audit Manager (Midlands Region), I successfully applied for the vacant role (around 1995). This followed an interview selection process and resulted in me moving to the regional head office in Birmingham, leading a team of auditors in the region, reporting to the Finance Director (Midlands).

18. Regional Audit Review Project 1998/99. I was seconded to National Audit (Post Office's Internal Audit Team) to work on a project. The project looked at reviewing the structure of the existing seven regional audit teams, with a focus on standardising branch audit practices across the UK. The project involved consultation with interested parties and also benchmarked against practices adopted by the branch auditing functions of other organisations/companies. The outcome of the project was the creation of a new national branch auditing team for Post Office, with a centralised management and admin structure (based in Chesterfield), reporting to the National Audit Team. I have struggled to recall the exact dates of this project or when the project was concluded.

19. Head of Network Audit – 1999 to 2000. After the creation of the new national team of branch auditors, I successfully applied for the new role of Head of Network Audit, following an interview process. Upon my selection, my initial focus was on setting up the new team, against an implementation plan. This plan would have involved recruiting team members, documenting new and standardised processes, baton passing files, tools and equipment (from the seven regional structures) and providing training and guidance for auditors in

new/revised processes. I cannot recall the exact date of when the new team commenced but my memory is that, during the early months, I reported to a role within National Audit (Post Office's Internal Audit Team).

20. Changes in Job Title and Branch Audit Reporting Line 2000 - 2006/08. The Network Audit Team was originally designed to report within the National Audit Team. Possibly as a result of a business wide organisational review (which also removed the seven regional boundaries), National Audit moved (organisationally) from Post Office to within Royal Mail Group. They then became known as Royal Mail Internal Audit & Risk Management but continued to perform auditing activities within Post Office (as well as other parts of the Royal Mail Group). However, it was decided that the Network Audit Team would stay within Post Office (rather than moving with National Audit). At this point, my reporting line changed for a temporary and very short period (and I cannot recall their role/name) and ended up reporting to Alan Barrie (Operations Director) for a further short period. My whole team was then absorbed into the Security & Investigations Team. This was at a time when the Security & Investigations Team was undergoing its own structural review. On completion of that review, I was selected to a similar role, with auditors now also completing security inspections (at the same time as a branch audit). I believe my role was now called National Audit & Inspections Manager and reported to Tony Marsh, Head of Security & Investigations. I believe that his job title changed to Head of Security & Audit but investigations staff remained within his remit. For reasons I cannot recall, but possibly due to a further organisational review, my team moved to the Finance Directorate and I reported to Rod Ismay (I believe his role was Head of Risk & Control at that time), who reported to the Finance

Director. Although my job title and reporting line changed over this period, my overall responsibility (of leading the team that performed branch audit activity) did not change.

21. Compliance Risk & Assurance Manager –2006/08 - 2011. Soon after a further organisational review (which I had believed to be around 2006 but documents I have seen suggest that this may have been “2008” (POL00085682) (3), the responsibility for the network auditors was transferred to the Network Directorate, with agency trainers and network auditors performing a new joint role. While I no longer had any operational responsibility for branch auditors, there was a short period of time where maintaining or developing compliance and conformance audit programmes (that were used during audits) were maintained by my team. In addition, a risk model (that helped inform a schedule of audits) continued to be managed by my team. My new role reported to the Head of Compliance (Keith Woollard), who had an expanded team and initially reported to the Finance Director. At a later point (possibly around 2009/10), Keith’s reporting line moved to a new Legal and Compliance Director. Keith left the business towards the end of 2010 so I reported to his replacement (Paul Meadows) for the final three months of my career. My role from 2006/8 onwards focused on providing management information on compliance audit activity and mystery shopper findings (in the form of a Compliance KPI pack) to a range of internal stakeholders and also informed assurance work/statements to external partners and clients (e.g. Bank of Ireland, NS&I, DVLA, UKPA etc), especially around regulatory matters. I also managed a risk register and took minutes at Post Office Risk & Compliance Committee (a subcommittee of the Post Office Executive Team).

22. Following a reorganisation that was announced in 2010, and after just over 31 years of working in various roles within different Post Office structures, I chose to leave the business. My last day of service was 26 March 2011.

The audit process and the policies/practices in place

23. I have been asked to provide an account of my role and the policies/practices in place and any changes.

24. In all my audit roles, I held a management position, focusing on leading a team of branch auditors (from a local team of two people in 1989/90 to a national team of circa 100 team members in the early to mid-2000s).

25. When I joined a District Audit Team (in 1989/90), my memory is that an Audit Manual was a small typed booklet. While there were established policies and processes in place in respect of auditing branches within the North Midlands District, I do not recall any documented processes. As this was in an era when computers were not used in the audit department, audit findings were documented on a paper-based form (called P32) and paper files were maintained for each branch and stored in folders in filing cabinets.

26. In 1993, when regional audit teams were set up, the Midlands Regional Audit Manger looked to standardise practices from across the old districts that made up the new region. I suspect that similar activities took place in the other six regions. When I took up the Midlands Regional Audit Manager post in 1995, I decided to centralise the audit operation in the Midlands Region. As Windows based computers were just being introduced to the Midlands Audit Team in the

mid-1990s, I decided to change our practices so that paper-based audit documents and files were replaced by documents on Word and Excel.

27. My memory is that National Audit (Post Office's Internal Audit Team) held national workshops (either six monthly or annually) to help facilitate the sharing of experiences and practices across the seven regions. My view, from attending some of these workshops, was that each individual region tended to have slightly different approaches and were organised or operated slightly differently as suited their region.

28. As part of the Review of Regional Audit Project (led by National Audit) in around 1998/99, the practices in place across the seven regions were examined. One of the outputs of this review was to develop an Audit Policy Manual and Audit Process Manual that would aid a uniform approach for branch audits in all post offices across the UK. I cannot recall the dates and reasons for subsequent changes to processes, but many would have been to reflect new products and change in practice at branches. These manuals were version controlled with details of changes.

Organisational Structure

29. I have been asked to consider documents POL00085682, POL00085769, POL00086765, POL00086831, POL00088445, POL00083966, POL00033398 in answering questions about organisational structure but note that POL00085682, POL00085769, POL00086765, POL00086831, POL00088445 were dated or appear to be written after I left Post Office in 2011.

30. As mentioned in paragraphs 18, 19 and 20 above, the Network Audit Team was designed with the intention of it reporting within Post Office's Internal Audit Team (National Audit). This changed when National Audit moved to Royal Mail Group. Subsequent changes to the organisational structure and reporting line of the Branch Audit Team were generally aligned with Post Office reorganisations, often linked to cost reduction (sometimes reducing the number of auditing roles) as Post Office sought to become a more competitive business.
31. As the only way to be assured that declared assets were physically in branches, the key remit of the audit team was to visit branches to count cash and stock (and other value items). The relationship between the branch audit team and other parts of Post Office (e.g. Network Management, Security Team) was either to obtain a range of management information (to inform audit activity) or provide findings from audit activity (on assets physically held at branches as well as any compliance or conformance issues) to those who were responsible for making decisions in respect of contractual liability, debt recovery and security or investigations.
32. Both now and at the time, I considered it important for the Branch Audit Team to have organisational independence and why I was keen for the team to sit within the National Audit Team (I believe, National Audit reported directly to the Board). Given the subsequent organisational changes, independence was positioned as being separated from the activities it audited i.e. having no executive responsibilities and being separate from those taking decisions (especially in respect of contractual and investigation matters).

33. While I cannot recall any specific concerns raised about the independence of the branch auditing activity, I did express misgivings about the decision to merge audit activities with training activities within the same directorate of the management of branches. With hindsight, it is evident that changes in reporting line had the effect of influencing a focus on activity e.g. when audit teams reported within Security, there was a decision to include security inspections in the audit testing. When moving to the Compliance team, there was a greater emphasis of testing regulatory compliance and, when the audit teams moved to the Network Directorate, there was additional focus on testing against conformance to "Branch Standards".

Recruitment and training of auditors

34. I have been asked to consider documents POL00032698, POL00086765, POL00088453 and POL00088557 in respect of questions regarding the recruitment and training of auditors. However, I note that POL00086765, POL00088453 and POL00088557 were all dated after I left Post Office in 2011. My response to questions about the recruitment and training of auditors focuses on the period when the branch auditors across the UK reported to a team led by myself, as I feel unable to comment about such matters before or after this period.

35. Branch auditors were recruited internally and generally had a background of working in a crown office.

36. There was no minimum level of qualification required to conduct branch audits, with Post Office counter experience considered the essential requirement.
37. When the new Network Audit Team was created, all appointed auditors would already have been experienced in auditing branches. There would have been an initial workshop that would have been used to provide guidance of new or revised processes. Subsequently, all branch auditors would have attended team meetings and periodic in-house audit workshops, which were used for exploring and sharing experiences, considering best practice as well as providing any required refresher training.
38. In principle, any new recruits would have been provided with induction training from their line manager and would shadow/be supported by more experienced members of the team (most branch audits required working with at least one other auditor). However, the series of business reorganisations or annual “headcount reduction” programmes meant that there were very few vacant positions that required filling. In addition, as business policy at the time was not to have a compulsory redundancy programme, this meant that there were often several surplus staff in the business (who did not want to take voluntary redundancy) looking for a role. Business/HR policy was to place any surplus staff into suitable vacant roles before they were filled through application and this resulted in recruitment restrictions i.e. any vacant roles were either left unfilled or had to be filled by surplus staff. Over a period of at least six years, during the period of leading the national team of branch auditors, I can currently only recall two new recruits (at least one of whom was surplus).

39. I cannot recall the dates, content, location or providers of Horizon training but branch auditors would have received the same type of training as was afforded to crown office staff as part of the Horizon roll out plan.

40. Branch auditors had a background of a counter clerk experience at a branch office and many had performed roles with cash account responsibilities. In addition, most had already worked in audit for many years prior to the creation of the national team and the roll out of Horizon. As they had experience and expertise in auditing, an environment that they were very familiar with (and with more counter experience than many of those they audited), I would have felt at the time that they had the necessary training and experience to carry out the tasks required of them. My view now is slightly different in that, when Horizon was rolled out, branch auditors no longer had this perceived advantage. They were immediately no more familiar with the way products were transacted than those who were using the system every day. With hindsight but set against the background of recruitment restrictions at the time, it would have been desirable to have had a more diverse skill set within the team. As most existing audit staff had not used a computer before 1995, injecting the team with more IT knowledge, experience and skills as well as enhanced skills in data analysis would have been valuable.

The planning and scheduling of audits

41. I have been asked to consider POL00084650 and POL00085286 in responding to questions about the planning and scheduling of audits at branches.

42. The Branch Audit Plan was devised as an annual audit plan (in terms of number of branches expected to be covered across different audit types) with the scheduling of named branches performed on a monthly/weekly basis, using a range of scheduling criteria. Most routine audits were unannounced and scheduled from the use of risk models (looking at financial risk data and compliance risk data) or following a management concern (e.g. at the request of the Investigations Team). Other audit activity (e.g. following a robbery/burglary, transfer of sub-postmaster and some compliance audit activity) was performed on an announced basis.

43. Once audits were scheduled to an allocated auditor, they were expected to be completed on the day although there were occasions when an audit had to be postponed e.g. audit staff reporting sick or being diverted to attend a robbery or burglary incident. Any verbal reporting would be undertaken while the auditors were still at the branch, with written reports generally performed away from the branch. These would be submitted to Network Management by email (with any hard copies requiring posting sent by a central admin team). I am not certain but believe that written reports were expected to be completed within a week of the audit.

44. While there was no investigation work by auditors prior to an audit, the lead auditor would be expected to perform some planning activities as preparation. This would have included reviewing previous audit findings and the reason for the audit being scheduled. In addition, the profile of the branch would be reviewed (e.g. branch type, location, opening hours, products transacted, if the sub-postmaster lived on the premises etc). The lead auditor would be expected to brief any other auditors attending, prior to the start of the audit.

45. Prior to 1993, audits were scheduled on a cyclical basis. I believe that the frequency ranged from 1 - 3 years, based upon the size of the branch and previous audit findings. There were exceptions to this frequency e.g. where management had expressed a concern, where there was a high level of errors being reported (through error notices), a robbery or burglary had occurred or within 3 and 12 months of a new sub-postmaster taking up post. During the period of 1993 - 1995, a new database was developed that sought to profile the risk of branches with the aim that its output would help inform audit scheduling and make better use of limited resource. The database was called the Outlet Target Risk Model ("OTRM"). The OTRM was developed by National Audit (Post Office's Internal Audit Team) and was rolled out to the seven regional audit teams, to maintain and use. I believe that this frequency basis for auditing was formally removed during the review of regional audit teams in 1999. However, some branches continued to be scheduled for audit on a random selection basis. This was in part to mitigate the risk of branches never being audited and to also help test the effectiveness of the risk model.

46. I cannot recall any specific variation between the scheduling of audits in respect of crown office branches and other branches except that more resource would be required to perform audits at crown offices so they would be more challenging to schedule. As crown offices were managed by a Post Office manager, who had responsibilities to perform random supervisory checks of individual staff, they may have been perceived as lower in risk.

The auditing process

47. I have considered documents POL00083966, POL00084801, POL00087627, POL00088745, POL00088204, POL00088252, POL00084003, POL00104821, POL00084977, POL00085652, POL00086765, POL00086831, POL00086839, POL00087716, POL00087614, POL00088628, POL00088830, POL00084979, POL00084978 and POL00088445 in answering questions about the audit process but note that several of the documents were dated after 2011 (when I was no longer employed by Post Office) and record processes that may have changed over time.

48. The auditor would have been expected to access a range of reports from the Horizon system as set out in the Audit Process Manual at the time. The Audit Process Manual was written and maintained as a means to set out a process to be consistently used by all Post Office branch auditors across the UK. The type of information would have included the Last Cash Declaration and Branch Trading Statement, Office Snapshot, Transaction Logs, Event Logs, Remittances In and Out report, Transaction Correction Reports etc. Any variations would depend on the branch profile e.g. if the branch operated multiple stocks or sold foreign currency.

49. Where the audit revealed a discrepancy, the lead auditor would be expected to double check their own figures first and then review various reports from Horizon that might explain the discrepancy. The sub-postmaster/branch manager would be advised of the outcome, confirming that all items of cash and stock had been provided/seen. In the event of any large financial discrepancy, other irregularity or admission of false accounting, an escalation process would be triggered. This involved immediate reporting to Network Management, who would decide what action to take. If there was any admission

of false accounting or where the discrepancy was greater than an agreed amount, this would also be reported to the Investigation team for their information/action. The amount that triggered an escalation may have changed from time to time but was in the region of £1,000. Branch auditors were required to gather the facts in an objective way for others (management in Network or Investigations) to make decisions. While auditors would probably ask the sub-postmaster/branch staff if there was any known reason for any discrepancy, they would not perform any interviews or investigation. Where a decision was taken by Network management to temporarily suspend the sub-postmaster, the auditors would perform a further, final audit as part of closing the branch.

50. Referring to POL00042966, I am not aware that branch auditors were ever instructed not to consider the cause of discrepancies or shortfalls at branches but were simply expected to follow a documented audit process.

51. I was asked to consider the email at POL00088823 in respect of a practice to ask sub-postmasters to make good any discrepancies found at audit and would comment that this email was dated 9 years after I left the Post Office. However, my recollection, going back to when I joined Audit in 1989/90, is that it was common practice to ask the sub-postmaster to make good a discrepancy found at audit. However, when a large discrepancy had been revealed or where there had been an admission of wrongdoing (that would require escalation on the day), the process was clear that the sub-postmaster should not be asked to make good the. In the event that the sub-postmaster voluntarily offered to do so, it would be accepted without prejudice to any investigation or decision that would be taken and a receipt to this effect provided.

52. I am unaware of an instruction being given to auditors on taking payment from sub-postmasters other than that set out in the Audit Process Manual (outlining how to deal with amounts that were offered).
53. At the end of the audit, the sub-postmaster would be advised of the result/findings and advised of any discrepancy discovered. They would be encouraged to provide any information that would help understand any reason for the discrepancy. While I do not believe that there was ever a formal process to invite the sub-postmaster to perform their own investigation, in the event of any precautionary suspension, they would no longer have access to the Horizon system.
54. At the outset of the audit, the lead auditor would introduce themselves (and any colleagues) to the sub-postmaster (or whoever was in charge) and outline the audit process, providing an estimated time of when the branch could open. The lead auditor would look to gain access to the Horizon system and also ensure that they had access to all cash and stock etc, asking the sub-postmaster/staff to be with them while they counted/agreed the cash figure (against the latest declaration). The lead auditor would look to keep the sub-postmaster up to date with the progress of the audit and arrange a close of audit meeting.
55. During the close of audit meeting with the lead auditor, the sub-postmaster was able to raise issues or concerns. The lead auditor would be expected to capture these and include them in the written report.
56. As a financial branch audit involved verifying assets physically on hand to reports generated by Horizon, I do not think it would be possible to perform an audit in circumstances in which it was not possible to access the

Horizon system. In events such as a fire or flood at the branch, there was an emergency process in place to count the cash, stock and other assets (agreeing figures with the sub-postmaster) and to secure the items off site.

57. For crown offices, it was considered impractical to audit every individual stock unit. Therefore, there was a process where a percentage of stocks would be audited focusing on those containing high values of cash/stock. The risk of not auditing every stock was mitigated by the fact that the branch manager would have responsibility for randomly checking stocks held by counter staff as well. When auditing a sub-post office, there would usually be an audit of all the value assets. At some point in time, a financial assurance audit was introduced at sub-post offices. This would involve checking cash and high value stock items only. However, in the event that a large discrepancy was revealed, the audit would be extended to a full cash and stock audit.

58. I have considered POL00002841 and FUJ00001894 in responding to questions about Global User Accounts.

59. I am not aware of any involvement that Fujitsu had in the branch audit process but recall sight of documents from Fujitsu that helped outline how branch auditors could access the system, in branches.

60. My understanding is that the branch auditor would not have access to anything on the system that the sub-postmaster (or any Horizon User with a manager access level) did not.

61. My understanding is that the Global User Account enabled a branch auditor to access the Horizon system, using a one-time password, for occasions when

the sub-postmaster was not present (and the branch auditor could not be added to the system) or where the branch auditor needed to close a branch.

62. From memory, there would have been a process to formally request a new Global User Account (or delete a user) but cannot recall what controls were in place to monitor these accounts.

Reporting and oversight

63. I have considered POL00047544, POL00021419, POL00021420, POL00021421 and POL00033398, POL00085619 POL00085431 in responding to questions about reporting and oversight, noting that POL00088887 was written over 10 years after I left Post Office.

64. A variety of different stakeholders in Post Office were provided with branch audit findings and these stakeholders changed over the years of different organisational structures. Aside of the verbal escalation process on the day of the audit (to network management and investigation managers), written reports were submitted to network management after each individual audit and (monthly/quarterly) summarised findings were provided to senior managers in a range of relevant functions, enabling any key trends or concerns to be raised.

65. The Risk and Compliance Committee ("R&CC") was a subcommittee of the Post Office Executive Team, meeting on a quarterly basis. There were regular attendees as well as invited members on a meeting-by-meeting basis. The role of the R&CC was to provide oversight and scrutiny to a range of risks being managed in the business and this would often prompt further activity. My

memory is that, by the late 2000s, each directorate had a risk champion and controlled a risk register for their own directorate. This was amalgamated into a Post Office risk register and reviewed by the R&CC. The Annual Audit Plan was also presented to the Committee for endorsement.

66. Since the audit process was designed on creation of the national team of branch auditors, it was subject to ongoing review. Reviews focused on input from users of the process, changing product ranges and internal processes and other feedback. While individual aspects of the audit process would be proposed by managerial team members, I would have been involved in the assurance/authorisation process of any changes.

67. Accepting now that the audit process at branches was reliant on the integrity and accuracy of Horizon data, at the time, I considered that the audit process was fit for purpose. At some point in the early 2000s, Network Audit was subject to a review by Royal Mail Internal Audit and Risk Management, which provided another level of assurance. Now, and with hindsight, there were probably aspects of the audit process that could have been better. These include more detailed planning activity, more controls to post audit activity, enhanced data analysis and improved summary reporting. It does also occur that the management information that informed the risk model (and helped to target the scheduling of audit activity) could possibly have identified issues or action without waiting for audit activity.

The debt recovery process and the policies/practices in place

68. I have reviewed POL00083939, POL00088904, NFSP00000169, NFSP00000043, POL00085794, POL00030562, POL00083951, POL00083952, POL00030566, POL00105417, POL00003060, POL00084012, POL00088897, POL00113670, POL00086868, POL00088579, POL00090357, POL00088312, POL00001642 prior to answering questions regarding the Compliance Team's role in relation to error notices, transaction corrections, transaction acknowledgements, branch discrepancies and a sub-postmaster's/assistant's response to these.

69. I cannot recall what an open item managed account was.

70. Prior to Branch Trading, an error notice effectively was a paper-based means to correct an error in the cash account, issued to the branch by post.

71. Transaction corrections replaced the paper-based error notice system after the introduction of Branch Trading. I do not recall the term transaction acknowledgement.

72. Error notices/transaction corrections were issued to correct a mistake/error made in the branch. This was generally after an error had been identified by the client (e.g. NS&I), or as part of the process for Product & Branch Accounting settling with clients or from other services (e.g. a cash remittance discrepancy).

73. Error notices were issued by the local audit teams (during the period of district and regional audit teams) up to the disbanding of regional audit teams (circa 1999). My recollection is that the issuing process transferred to the Agents Debt Team in Product & Branch Accounting (perhaps known then as Client Account

and Cash Management) at that point. Transaction corrections would have been issued by Product & Branch Accounting, through Horizon.

74. On receipt of an error notice, the sub-postmaster would be expected to bring it to account but could seek more evidence (if insufficient evidence was supplied) or dispute it (with reasons for doing so).

75. On receipt of a transaction correction, I believe that the sub-postmaster had the option to accept it, settling centrally or locally, or seek more evidence.

76. I cannot recall what guidance or check list (on suggested steps to follow) was provided to sub-postmasters, when they discovered a deficiency in their accounts, but would expect that this would include recounting cash and stock and reviewing transaction logs. As sub-postmasters were contractually liable for losses (e.g. through negligence, carelessness, innocent errors or for any losses incurred by staff working for them), they would be expected to rectify any resultant discrepancy at the end of the trading period (or cash account week, prior to Branch Trading). The options were to make good locally (or withdraw a surplus) or settle centrally.

77. I had a vague recollection that a minimum amount was introduced for settling branch trading discrepancies centrally but could not recall the amount (although POL00085794 outlines that this was £150). The sub-postmaster would be expected to make good amounts under this limit in cash or cheque although I recall that, for larger amounts, there was also an option for the sub-postmaster to put forward a hardship case for consideration.

78. I have reviewed the witness statement WITN0398010 and POL00088904, POL00086845, POL00088867, and NFSP00000169 in answering questions about the local suspense account. From memory, the suspense account was originally used to account for payments and receipts that could not be accounted for at the end of the balancing day e.g. transactions accepted after a cut off time. It was also used to hold an amount (with authority) for a pending error notice e.g. where the branch was aware of a known and identifiable error but an error notice had not yet been processed/received. It may also have been used to account for any remittance discrepancies or a deficiency in the account due to a robbery or burglary at the branch (which was awaiting clearance).

79. In considering the document POL00085794, I cannot recall the detail of the process so I am not sure if by 2005, the only option open to a sub-postmaster who received a transaction correction which they did not understand or wished to challenge was to call NBSC.

80. I do not know what NBSC's processes were in respect of dealing with disputed transactions corrections but I would expect that the onus would have been on the branch to have explained why any transaction correction was being disputed.

81. Similar to my response in paragraphs 79 and 80 above, I do not know if the only option available to a sub-postmaster who considered that a discrepancy was caused by a system error, was to contact NBSC and seek agreement with Product & Branch Accounting (settling centrally while the matter was investigated).

82. My personal view would have been that settling centrally was an accounting procedure and separate from the acceptance of liability (especially where a transaction correction was under dispute). The document POL00001404 appears to be notes taken from a meeting where legal guidance was that "*settling centrally*" did indicate acceptance of debt liability. I was neither at that meeting nor was this a position that I was aware of.

83. I do not know what records were held by NBSC or Product & Branch Accounting to know if it was possible to distinguish the difference between a disputed debt from an undisputed debt.

84. My understanding at the time was that transactions corrections were provided with sufficient evidence so I would have felt that it was satisfactory to expect a timely settlement. As indicated in paragraph 82 above, I do not now think it was satisfactory to expect a sub-postmaster to settle centrally for a transaction correction that was not supplied with clear evidence (especially if this implied accepting liability).

85. I have been asked if I agree that the process for challenging transaction corrections/discrepancies meant that any deficiency/loss was assumed to be caused by an error (or wrongdoing) on the part of the sub-postmaster unless they proved otherwise. I do not agree that the process of challenge in itself should lead to that view but I would agree that any resultant deficiency or loss from an unsuccessful challenge would have been considered to be due to a further or compensating error and that the onus would be on the sub-postmaster to identify or prove such an error.

Cases against Sub-postmasters

86. I have been referred to POL00061010. My memory of this case is quite vague in that I have a recollection of a case of this nature and recall being informed of the situation by phone but cannot recall by whom or at what point. While the case would have prompted an urgent review (of the audit process and application of that part of the audit process), to identify any gaps and prompt any remedial action, I have no recollection of the outcome.

87. In considering both the documents POL00044497 and POL00066040, I do not recall any involvement in either case. Both audits were prompted by management (Investigation) concerns and these would have been coordinated with the manager responsible for scheduling audits and/or the lead auditor. Where a discrepancy revealed at any audit was greater than £25,000, I was routinely advised in order that I could inform senior management. In addition, large discrepancies revealed at audit would trigger me to review risk model data to understand if/how the risk model was capturing this or if any other branches showed a similar profile.

Knowledge of bugs, errors and defects in the Horizon system

88. I have considered documents POL00088935, POL00088209, POL00042966, and POL00087879 to answer questions about knowledge of Horizon system issues.

89. The trend data in POL00088209 relates to the period between 2013/14 and 2016/17. This period is after I left the business in 2011. Prior to leaving Post

Office, I would have been aware of any trend change in the average loss discovered at audits but would also have been wary of any headline figures where a few large individual losses skewed the average discrepancy found at audit. I also suspect that, if the trend was rising, it may have been considered (at the time) that this was partly a measure that confirmed the risk model used in the selection of branches to be audited was working. In my view, the results of randomly selected branches for audit would probably have been a better basis for measuring any broader trend but I do not recall what that trend was.

90. With the exception of issues encountered during a communication failure/power outage at a branch, for which there were fall back processes, I did not have nor was I aware of any concerns regarding the robustness of the Horizon system during my time working for Post Office. Any issues I had heard about seemed to be considered as related to in branch/user error.

91. As I did not have any concerns, there was no communication decision to make.

92. I was not aware of any instruction given to auditors to disregard possible problems with Horizon as a possible cause for discrepancies, noting that I did not have direct contact with branch auditors after those roles moved (organisationally) into the Network directorate.

Other matters

93. I have been asked whether there are any further matters I consider the Chair of the Inquiry should be aware of. I can confirm that there are no further matters I can think of for his consideration.

Statement of Truth

I believe the content of this statement to be true.

Signed: _____ **GRO** _____

Dated: _____ 11 May 2023 _____

Index to First Witness Statement of Martin Charles George Ferlinc

<u>No.</u>	<u>URN</u>	<u>Document Description</u>	<u>Control No.</u>
1	POL00085682	Review of Post Office Ltd Audit Processes and Tools (Dated October 2011)	
2	POL00085769	Business Loss Programme Board ONCH – Cash Loss deficiencies: POL Analysis Report (Version 0.1 28 October 2011)	
3	POL00086765	Network auditing approach, methods and assurance (Dated 2013)	
4	POL00086831	POL Executive Committee: Internal Audit Options (Dated October 2013)	
5	POL00088445	Process document – Agent Debt (Undated)	
6	POL00083966	Audit Charter (Version 4.0 undated)	
7	POL00033398	Post Office Training Presentation on Assurance Review: Quality of Auditing (Draft version 0.5, undated)	
8	POL00032698	Assurance Review – Recruitment (Vetting & Training) – (Version 1.0, 27 October 2009)	
9	POL00086765	Network auditing approach, methods and assurance (Dated 2013)	
10	POL00088453	Training & Audit Advisor (Undated)	
11	POL00088557	Audit Advisor (Undated)	
12	POL000852864 0 (POL00085286)	Audit Plan & Scheduling, Chapter 1 of the Audit Process Manual (Version 9)	
13	POL00083966	Audit Charter (Version 4.0 Undated)	

14	POL00084801	Performing a Branch Audit, Chapter 3 of the Audit Process Manual (Version 5.1, 2010)	
15	POL00087627	Follow Up Audit Process, Chapter 3b of the Audit Process Manual (Version 3.0, May 2015)	
16	POL00088745	Closure Audit, Chapter 5 of the Audit Process Manual (Version 8.0, 19 September 2019)	
17	POL00088204	Robbery & Burglary Audits, Chapter 6 of the Audit Process Manual (Version 6.0, 2017)	
18	POL00088252	Performing a Cash Centre Audit, Chapter 7 of the Audit Process Manual (Version 5.0, 2016)	
19	POL00084003	Post Incident Auditing without Horizon, Chapter 14 of the Audit Process Manual (Version 1.0, 1 November 2006)	
20	POL00104821	Condensed Guide for Audit Attendance (Version 2, October 2008)	
21	POL00084977	Former Sub-postmaster End To End Debt Review (Version 0.5, December 2009)	
22	POL00085652	Requirement of Network Field Support Advisors at audit, following discovery of discrepancy (Version 1.0, October 2011)	
23	POL00086765	Network auditing approach, methods and assurance (Dated 2013)	
24	POL00086831	POL Executive Committee: Internal Audit Options (Dated October 2013)	
25	POL00086839	Training Guide: Compliance Audit Tool (Dated 2013)	
26	POL00087716	Training-Aide for Branch Asset Checking (Version 1.7, November 2014)	

27	POL00087614	Terms of Reference Audits (Dated April 2015)	
28	POL00088628	Closure Process when Horizon is not operational (Version 3.2, December 2018)	
29	POL00088830	Checklist for Audits (Dated 4 July 2019)	
30	POL00084979	Network Field Support Team Business Process Documentation (Undated)	
31	POL00084978	Network Field Support Team flowchart (Undated)	
32	POL00088445	Process document - Agent Debt (undated)	
33	POL00042966	Post Office's Response to Claimants' Information Requests Made on 4 March 2019 (Dated 27 September 2019)	
34	POL00088823	Email (Dated 26 March 2020)	
35	POL00002841	Global User Account (Dated September 2016)	
36	FUJ00001894	Audit Trail Functional Specification (Version 8.0, 18 October 2004)	
37	POL00047544	Post Office branch auditing – Period 6 report (2004/05) – (Dated 29 October 2004)	
38	POL00021419	Minutes of the Risk and Compliance Committee (Dated 8 November 2005)	
39	POL00021420	Minutes of the Risk and Compliance Committee (Dated 22 March 2006)	
40	POL00021421	Minutes of the Risk and Compliance Committee (Dated 8 September 2006)	
41	POL00033398	Assurance Review: Quality of Auditing (Draft version 0.5, February 2011)	

42	POL00085619	CAT Reporting Tool Changes (Dated May 2011)	
43	POL00085431	Guide to sending reports/documents post audit (Dated 2020)	
44	POL00088887	A short guide to the Audit Reporting Tool (ART) – (Dated 13 May 2021)	
45	POL00083939	Losses at SPSO's: Guidelines on responsibilities and recovery arrangements – (Understood to be issued in 1988)	
46	POL00088904	Losses and gains policy within the POCL agency network (Version 1, 20 November 1998)	
47	NFSP00000169	Debt recovery – Horizon related errors (Dated 18 November 2004)	
48	NFSP00000043	Debt recovery – Horizon related errors (Dated 18 November 2004)	
49	POL00085794	Debt Recovery Processes under Branch Trading” – (Dated October 2005)	
50	POL00030562	Post Office Ltd Losses policy – overarching (branches) – (Version 9, effective date April 2006)	
51	POL00083951	Process for awaiting TC (Transaction Correction) – Multiples (Dated 15 December 2005)	
52	POL00083952	Process for awaiting TC (Transaction Correction) – Singletons – (Dated 15 December 2005)	
53	POL00030566	Dealing with discrepancies revealed at audit (Version 1 undated)	
54	POL00105417	Summary of Discussion on Compliance, Conformance, Losses and Debt (Dated 2008)	

55	POL00003060	Post Office Limited – Process documentation – Branch Correction Process (TCs) - Version 2.0, undated	
56	POL00084012	Transaction Correction / Debt Recovery Process (Undated)	
57	POL00088897	Working agreement – Finance Service Centre and Network (Version 2.12, undated)	
58	POL00113670	Policy document - Operators' in service debt – (Version 1.0, 18 September 2013)	
59	POL00086868	Policy document - Operators' in service debt (Version 1.1 22 October 2013)	
60	POL00088579	Policy document - Operators' in service debt (Draft Version 1.2 8 February 2019)	
61	POL00090357	Policy document - Operators' in service debt (Version 2.0 4 December 2014)	
62	POL00088312	Policy document - Operators' in service debt (Version 3 April 2017)	
63	POL00001642	Review of the Creation and Management of Transaction Corrections in POLFS to Correct Accounting Errors in Horizon (Version 1.0, 10 February 2010)	
64	WITN0398010	WITN0398010 - 2023	
65	POL00088904	Losses and gains policy within the POCL agency network (Version 1, 20 November 1998)	
66	POL00086845	Post Office Ltd – Security Policy: Accounting losses policy for agency branches	
67	POL00088867	Post Office Ltd – Security Policy: Liability for losses policy (for agency branches)	
68	NFSP00000169	Letter	

69	POL00085794	Debt Recovery Processes under Branch Trading	
70	POL00001404	TC/Debt Recovery Review	
71	POL00061010	Post Office Ltd Offender Report on David Yates and Lindsey Smale	
72	POL00044497	Letter from Alan Stuart to Nigel Allen re: Audit of Post Office South Warnborough branch	
73	POL00066040	Letter from Alison Edwards to Sue Muddeman re: Audit of Post Office Ten Acre Street branch	
74	POL00088935	Report from Rod Ismay, Head of Product & Branch Accounting to Dave Smith, Mike Moores and Mike Young regarding Horizon - Response to Challenges Regarding Systems Integrity	
75	POL00088209	Post Office Agent Branch Losses - Mitigation Proposal	
76	POL00042966	Post Office's Response to Claimants' Information Requests Made on 4 March 2019 in Alan Bates & Others and POL	
77	POL00087879	Approach to Business Risk, Branch Audit and Accountancy Support for Operators	