

Post Office Limited

-v-

Lee Castleton

Case No. HQ 05 X 02706

Expert Report by:

Geoffrey W Porter

Draft Report Dated:

29 November 2006

Draft



BDO Stoy Hayward
Chartered Accountants



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
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TABLE OF CONTENTS

Section		Page
1	CURRICULUM VITAE OF G W PORTER	1
2	SUMMARY	2
3	INTRODUCTION AND TERMS OF REFERENCE	4
4	BACKGROUND INFORMATION	7
5	BALANCING HORIZON AND DEALING WITH DIFFERENCES	11
6	REVIEW OF THE TRANSACTION LISTINGS RECORDS	16
7	ERRORS IN RECORDING RECEIPTS	20
8	REVIEW OF THE ACCOUNTING RECORDS	24
9	THE ACCOUNTING RECORDS AFTER MR CASTLETON WAS SUSPENDED	30
10	OTHER POSSIBLE REASONS FOR ERRORS	31
11	EXPERT'S DECLARATION	35

APPENDICES



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Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

1 CURRICULUM VITAE OF G W PORTER

- 1.1.1 I am a director in BDO Stoy Hayward LLP's Forensic Accounting department at the Southampton office.
- 1.1.2 I graduated from the University of Essex with a BA degree in economics.
- 1.1.3 I qualified as a Chartered Accountant in 1975 and became a Fellow of the Institute of Chartered Accountants in England and Wales in 1981.
- 1.1.4 I have undertaken forensic accountancy work since 1983. I was admitted as a practising member of the Academy of Experts in 1996. My membership number is 1721.
- 1.1.5 I am an associate of the Chartered Institute of Arbitrators.
- 1.1.6 I have been involved in many litigation cases and have prepared numerous reports for court, for both defence and claimant. These have included:
- matrimonial disputes,
 - partnership disputes,
 - the valuation of private companies,
 - personal injury and fatal accident claims,
 - loss of pension rights,
 - professional negligence, and
 - claims in relation to defaulting solicitors.
- 1.1.7 I have been instructed as Single Joint Expert in matrimonial and personal injury disputes. I have attended Court as the Expert Accountant on a number of occasions and have given evidence at trial.
- 1.1.8 I have also been instructed in employment disputes relating to pension issues and have given evidence at the Employment Tribunal.



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Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

2 SUMMARY

2.1.1 This report concerns a claim by Post Office Limited against Lee Castleton (“Mr Castleton”) who was the sub-postmaster at Marine Drive, Bridlington from July 2003 to March 2004. The Post Office claim that they have suffered losses of £25,858.95 at the branch which Mr Castleton is responsible for under the terms of his contract. I have been asked to investigate these losses. Mr Castleton has blamed the losses on problems with the Post Office computer system used in sub-post offices.

2.1.2 My conclusions can be summarised as follows:

- (a) The only indications of possible computer problems that are apparent from the accounting records are three very small differences in the cash account (trial balance) but each are less than £5. This is discussed in section 6.2.
- (b) Mr Castleton had to make a declaration of the cash in hand at the end of each day. He entered the figure he said he had at the sub-post office, showing in detail the amount of notes and coins of different denominations. Comparing the changes in these figures with the cash account movement for the day there are significant differences every day in the two months I have looked at in detail. These suggest Mr Castleton was not recording his cash balance correctly. This is discussed in section 6.4.
- (c) On two occasions in the period I have reviewed Mr Castleton was notified of errors which resulted in him owing the Post Office £1,349 and £862 for past mistakes. There is no indication that he made good these amounts. This is discussed in section 10.3.
- (d) I have concerns that Mr Castleton was inadvertently overstating his differences by not understanding how the suspense account was supposed to operate. It appears that he has treated £3,509 as a loss which is still in suspense. This looks like double-counting and if so would overstate the amount of the Post Office claim. This is discussed in section 5.5.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

- (e) There is a suggestion by a Mr John Jones of the Post Office that Mr Castleton had omitted receipts from a car auction customer which paid in large amounts in cash to its Girobank account. My conclusions are that the three large amounts that Mr Jones refers to were correctly dealt with in the cash account. This is discussed in section 7. There is a separate point, which is not part of my investigation, as to whether Mr Castleton has been over-ordering cash from the Post Office because of the uncertainties as to how much money the auction would pay in each week. Throughout most of January and February 2004 Mr Castleton seems to have far too much money for his normal requirements to pay pensions etc.



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Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

3 INTRODUCTION AND TERMS OF REFERENCE

Instructions

- 3.1.1 I have been instructed by Bond Pearce on behalf of the claimant, Post Office Limited to prepare an expert accountant's report.
- 3.1.2 I have been asked to investigate whether the Post Office suffered a loss of £25,858.95 as a result of Mr Castleton's actions. I have been asked us to focus on the issue of whether the losses can be proved arithmetically.
- 3.1.3 I do not act as accountant to either party to the claim and except where specified I have carried out no audit or verification work in relation to the information on which I have relied.

Confidentiality

- 3.1.4 This document has been prepared strictly for use in the claim by the claimant. I understand that it will be made available to the claimant, her legal advisors, other parties connected with the action and the Court. In all other respects, this report is confidential and should not be used, reproduced, or circulated for any other purpose, in whole, or in part, without my prior written consent. I will not accept liability to any party other than the claimant.

Legal and factual issues

- 3.1.5 Although the report is prepared for instructing solicitors and counsel solely for the purpose of this particular action, my overriding duty is to express an honest and unbiased opinion to assist the Court. I have prepared this report as if instructed by the Court.
- 3.1.6 This report should not be read as expressing any opinion on factual matters which depend on disputed testimony of the witnesses of fact, or legal issues, although it inevitably reflects my understanding of the position.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

Preparation of report

3.1.7 I have written this report myself and so the opinions expressed are my own. Where I have received assistance, I have supervised the staff concerned. The individual who has assisted me in preparing this report was:

- Elizabeth Padley FCCA– forensic manager

3.1.8 In preparing some of the appendices to this report I have used Excel on Dell Personal Computers and minimal arithmetic errors may occur within the computer programs as a result of rounding.

3.1.9 Any opinions or views expressed in this report are subject to any further information which may be made available to me and in this sense are provisional.

3.2 SOURCES OF INFORMATION

3.2.1 I have been provided with a large amount of photocopied documents relating to the Marine Drive sub-post office. These include copies of the weekly cash accounts and many of the control prints produced from the Horizon computer system. Many of these documents are timed and dated and show the computer log in code for the individual that printed the report.

3.2.2 The records that I have seen generally cover a period from the week ending 24 December 2003 (Post Office accounting week 39), which was the first time that Mr Castleton reported a problem with his accounts to the week ended 17 March 2004 (week 51). Mr Castleton was suspended during the following week (week 52). I have also seen some records during the subsequent period from weeks 1 to 6 of 2004-05 when the sub-post office was being operated by two temporary sub-postmasters following Mr Castleton's suspension.

3.2.3 I have also been provided with Excel spreadsheets (and printed copies) of the transaction and events records from Horizon for Marine Drive for the months of January, February and March 2004.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

- 3.2.4 I have seen the witness statements from various Post Office employees explaining various aspects of the operation of the sub-post office and their investigations into Mr Castleton's affairs.
- 3.2.5 The Post Office have produced detailed manuals showing staff how to operate the Horizon accounting system. I have been given copies of manuals which I am told are the versions in force when Mr Castleton was at Marine Drive.
- 3.2.6 In **appendix 1** I have summarised the Post Office's claim against Mr Castleton which amounts to £25,858.95.



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Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

4 BACKGROUND INFORMATION

4.1 The Marine Drive sub-post office

4.1.1 I have not been able to visit the Marine Drive sub-post office but I understand that it is one of a number of such offices in Bridlington.

4.1.2 I understand that the sub-post office is situated within a shop that was being run by Mr Castleton. During the period that the sub-post office was run by Mr Castleton there appear to have been three individuals working in the post office part of the business, Mr Castleton, Mrs Christine Train and an assistant (Rita). The sub-post office was open from Monday to Friday and on Saturday mornings. It would appear that typically Mrs Train worked full time and Rita mornings only during the week. Mr Castleton appears to have worked most days and often covered Mrs Train's lunch break. On Saturday mornings only one person operated the sub-post office.

4.1.3 Sub-post offices provide a variety of services which vary according to their location. For example Marine Drive provided some parcel facilities but did not issue motor vehicle licences. Marine Drive is near to the town centre where there is a main post office. In monetary terms by far the largest part of Marine Drive's work was the payment of pensions and benefits. This would include the payment of retirement pensions, tax credits and other family benefits.

4.1.4 In value terms postal transactions generated only a relatively small amount of revenue. The period that I have reviewed covers the winter months and as Bridlington is a seaside resort there may be a different pattern of business in the summer months.

4.1.5 Marine Drive carried out a variety of banking transactions, including:

- (a) Accepting deposits from Girobank customers;
- (b) Accepting deposits from Alliance & Leicester customers;
- (c) Receiving payments for National Savings & Investment products (e.g. savings certificates and premium bonds);



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

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- (d) Paying out money to Alliance & Leicester customers; and
 - (e) Paying out money to Post Office Card Account holders.
- 4.1.6 The Girobank deposits represent the largest amounts of receipts from customers at Marine Drive. Girobank accounts are often used by business customers because the Post Office is willing to accept cash bankings, which it can then use to pay pensions and benefits, unlike the High Street banks who will often charge businesses for dealing with cash. In addition money was accepted from the public for the payment of utility bills and other services.
- 4.1.7 Business at the sub-post office was carried out predominately in cash. There were some cheque receipts from customers amounting to about £5,500 per week. The basic procedure is that a cheque payment for say a television licence is entered in the Horizon computer system and the cheque is then sent to a central processing centre. There is then a checking procedure to detect errors as discussed in section 10.5. In addition to cheques there are a very small number of debit card payments, averaging less than £200 per week, which because of their small size I have not considered further. The great majority of transactions in both number and value take place in cash.
- 4.1.8 During the thirteen weeks before Mr Castleton's suspension the average transactions at Marine Drive were that it paid out almost £70,000 in cash for pensions and benefits each week. About half of the cash required for this came from the banking receipts but an average of £35,000 per week had to be sent in cash to Marine Drive by the Post Office. I understand that Mr Castleton's operation of the cash ordering system were a matter for concern.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

4.2 The Horizon computer system

4.2.1 The Post Office has introduced a standard computer system called Horizon at all of its branch offices including Marine Drive. Each branch is linked to a central computer but operates separately and importantly produces its own accounts which the sub-postmaster has to balance regularly. I understand that Marine Drive has two counter positions in the post office but they were not operated separately by Mr Castleton. He had the opportunity to operate the units separately, which might have given him more control over his staff, but he chose not to do so. I discuss the operation of Horizon further in section 5.

4.2.2 In **appendix 2** I have summarised the cash account for Marine Drive from the Horizon records.

4.3 Stock

4.3.1 A sub-post office such as Marine Drive carries a stock of postal items such as stamps and postal orders. The pattern of stock carried by a sub-post office has changed in recent years. The facility for the Horizon computer system to print postal labels has reduced the need to keep stocks of stamps. However there are new stock lines such as phone cards. Marine Drive had a National Lottery franchise and the stock included instant lottery tickets.

4.3.2 Typically Marine Drive had around £6,000 in stock (excluding lottery tickets) made up of around £4,000 in stamps, £1,000 in postal orders and £1,000 in phone cards and television and vehicles licence stamps.

4.3.3 The Horizon records show that Mr Castleton held around £2,000 in National Lottery instant tickets (page 5 of appendix 2). However during the audit in week 52 the Post Office auditors discovered a discrepancy of £1,769 (see appendix 1). As can be seen from page 11 of appendix 2 the stock of lottery tickets held by the temporary postmasters after Mr Castleton's suspension was less than £700. It is not known when this discrepancy arose.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

4.4 **Staff**

- 4.4.1 Looking through the events logs for January to March 2004 there are four users on the system (excluding what appear to have been various entries by the auditors in March) namely LCA001 (Lee Castleton) , RSP001, CTR001 and CTR002. CTR is Christine Train but it is not clear why she has two log on codes. There seem to be days when she is logged on under both codes. In the file there is a list of users which shows that RSP has access as a Clerk but LCA and CTR are down as Managers.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

5 BALANCING HORIZON AND DEALING WITH DIFFERENCES

5.1 Accounting by sub-postmasters

5.1.1 A sub-postmaster is entrusted with a considerable amount of cash and valuable stock and the Post Office has systems which ensure that meticulous accounts are kept.

5.1.2 It is a fundamental part of the contract with the Post Office that each sub-postmaster is responsible for losses incurred at his or her branch. The system therefore aims to ensure that the sub-postmaster records all transactions carefully and accurately, reconciles the cash and stock held regularly and reports any differences promptly.

5.2 An overview of Horizon

5.2.1 The Horizon accounting system is intended to control all of the cash and stock that the sub-postmaster holds within the branch. All financial activities within the sub-post office have to be recorded in the system. Each transaction should be a double entry accounting basis, for example that sale of a postage stamp for cash will show in Horizon as a sale and as an increase in the cash balance.

5.2.2 The transactions that Horizon records include:

- (a) Sales of stamps and other products;
- (b) Payments of pensions and benefits;
- (c) Banking receipts and payments;
- (d) The receipt of cash from the Post Office;
- (e) The receipt of stocks of stamps and postal orders;
- (f) The remittance of cheques received from customers to the Post Office clearing house;
- (g) Sales of National Lottery tickets and the payment of cash prizes to winner;



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

- (h) Foreign currency received from the Post Office for customer orders and any exchange differences whilst the currency is held at the branch;
 - (i) Returns of damaged notes and coins to the Post Office.
- 5.2.3 The system is designed to record all financial transactions at the post office.
- 5.3 **Balancing the books**
- 5.3.1 A sub-postmaster has to balance his or her accounting records regularly. He has to show to the Post Office that he has controlled the cash and stock entrusted to him and has accounted for it properly.
- 5.3.2 At the time Mr Castleton was at Marine Drive the basic system involved a formal weekly reconciliation of the records carried on at the close of business on Wednesday. Essentially this simply involved counting the cash and stock held at the branch and comparing it with the record maintained by Horizon. If all transactions have been correctly recorded in Horizon and the sub-post office staff have not made any mistakes then the cash stock held should equal the balance per the system.
- 5.3.3 As Horizon is a computerised system, the sub-postmaster has to make a cash declaration by entering the cash held into the system each week. In doing so he is telling the Post Office “this is the amount of cash I have”.
- 5.3.4 Clearly with any retail business that deals with large numbers of cash transactions there will be mistakes. Staff may give wrong change or perhaps give the wrong number of stamps, giving the customer fifty stamps but charging for forty. However staff employed in post offices usually are skilled at cash handling and have good arithmetic abilities and mistakes should normally be small. Mr Castleton was recording differences of less than £1 in the first four weeks returns that I have seen (page 5 of appendix 2) and the temporary staff employed after his suspension were achieving differences of less than £20 in most weeks (page 11 of appendix 2).



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

5.3.5 Operating a modern computer system such as Horizon should reduce the scope for staff error. Many transactions are dealt with by scanning bar codes on products such as books of stamps and other products are entered by using a touch screen system where the clerk selects the item sold from a picture menu. The need to add up the price stamps sold and similar manual entries should be eliminated. There is also a simplification in that Horizon prints postage labels which eliminates the need to use high value stamps for parcels etc. Clearly this will never eliminate the possibility that a clerk may give the wrong change or pay out too much in pensions.

5.4 **Dealing with gains and losses**

5.4.1 The Horizon manual explains to the sub-postmaster how to deal with gains and losses on balancing. At page 77 of Balancing with Horizon it simply says:

Making Good Losses

If you have not obtained authority to hold a loss within the Suspense Account, you will need to make good the discrepancy after the final stock unit has rolled to the next CAP.

Make good the loss

- This involves placing the cash for the amount of the loss in your till

5.4.2 Similarly sub-postmasters are told to remove cash from the till to eliminate any gain. After adjusting for any gain or loss the sub-postmaster then makes a new cash declaration stating the corrected amount of cash held and this is carried forward to the next week. Using this procedure Mr Castleton would have been able to deal with the small day to day differences that arose each week.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

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- 5.4.3 Where a sub-postmaster has a loss that he or she is unable to immediately make up from their own cash then there is the facility of making a temporary transfer to a loss account in which the amount can be held until the sub-postmaster has arranged funds to make good the loss. In the Horizon system this is done by making a transfer from the cash account to account “223 Loss A posted to Table 2a” which name is a reference to the weekly cash accounts which is divided into sections known as tables. Where a loss is cleared a corresponding transfer back to cash is made from account “221 Loss A redeemed from Table 2a”.
- 5.4.4 Mr Castleton made two transfers to account 223 of £8,243.10 in week 47 and £3,509.68 in week 49. The loss account and the suspense account (see 5.5below) are summarised in **appendix 3**. I discuss the second transfer further at 5.5.4 below.
- 5.5 **The suspense account**
- 5.5.1 Where a sub-postmaster has a loss or gain that he or she considers abnormal there is a facility to transfer the difference to a suspense account which will allow it to be investigated without the need for the sub-postmaster to immediately pay in cash to cover the loss.
- 5.5.2 There is a formal procedure for using the suspense account and there are restrictions as to the items that should be transferred into it. In particular use of the suspense account in some case required the authorisation of a manager.
- 5.5.3 The sub-postmaster can make a transfer of a shortage to suspense through Horizon which will have the effect of making an adjustment between the cash account and Horizon account “222 Shortage Discrepancy (Suspense)”. Using the suspense account is intended to be a temporary measure. When the sub-postmaster resolves the query a further adjustment is made between the cash account and Horizon account “145 Surplus Discrepancy (suspense)”. Accounts 222 and 145 would then cancel each other.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

5.5.4 Mr Castleton has used both codes and I have concerns that he did not understand how to use these accounts. I note the week 49 transfer on 27 February is a very similar amount to a sum of £3,509.18 which Mr Castleton had transferred to suspense account on the previous day (page 1 of appendix 3). My view is that this may be a duplication as I would have expected to see a transfer out of suspense before the transfer to the loss account was made.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

6 REVIEW OF THE TRANSACTION LISTINGS RECORDS

6.1 The Horizon transactions listings

6.1.1 The Horizon system records every accounting transaction at a post office from the sale of a single postage stamp to the receipt of cash for the weekly payment of pensions. The system operates on a double entry system from which it is possible to extract a trial balance in the form of a weekly cash account.

6.1.2 I have been given Excel spreadsheets which are the detailed transactions for the Marine Drive sub-post office for the months of January , February and March 2004.

6.2 Addition errors

6.2.1 I have looked at the three transactions spreadsheets and observe that two out of the three (January and February) do not add up by small amounts of £2.47 and £4.05. I have identified that the £2.47 falls in week 42 (the period Mr Castleton has tried to reconcile manually) and that it is represented by two separate amounts of 92p on 12 January and £1.55 on 15 January.

6.2.2 A possible explanation for this seems to:

- (a) 92p is posted as a Royal Mail Label - International Air (code 4342) and is followed by £1.84 cash. This could suggest that two labels were issued but only one has gone through?
- (b) £1.55 is posted as a Royal Mail Label - Inland Second Class (code 4341) and is followed by a Royal Mail Label - International Air (code 4342) and then a series of other 4341 transactions that are cleared by cash of £19.78. The transactions only add up to £18.23 including the £1.55

It occurs to me that the Royal Mail Label - International Air (code 4342) transactions are relatively unusual and I wonder if the explanation is that the clerk intended to input two Royal Mail Label - Inland Second Class (code 4341) and instead of 4341 twice the system has picked up the entry as one 4342 but has lost



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

the second 4341? I note that the first transaction was carried out by Mrs Train and the second by Mr Castleton.

6.2.3 The £4.05 in February can be identified as being as a cash receipt at 16.51 on 4 February 2004 by CTR001 (Mrs Train) for which there is no debit. A little while later at 17.07 there is a £4.05 debit and credit again by CTR001. The debit is a code 4 which is "Redeemed vouchers to CRU". It is possible that Mrs Train was trying to reconcile the records and entered the cash twice but should not the system have shown an error?

6.2.4 I do not have an explanation for these errors but my review of the transactions listings for the three months has given no indication of any other errors.

6.3 Lottery Sales

6.3.1 Mr Castleton had an a National Lottery outlet at Marine Drive. There appears to be scope for him making errors in this area. My understanding is that the National Lottery terminal was in Mr Castleton's shop but he was required to account for the lottery transactions through Horizon.

6.3.2 From the transactions listing that National Lottery sales (Horizon code 251) appear generally as a small group of transactions once a day. The system does not show large numbers of small transactions for sales of individual tickets. I assume therefore that Mr Castleton paid the lottery sales into his shop till and then once a day, typically first thing in the morning, took the money from the shop till and put it in the post office till.

6.3.3 There are clearly opportunities for errors in such transactions, most notably that Mr Castleton may have taken the wrong amount out of his shop till so that there is a difference between his cash received and the sales recorded on Horizon.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

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- 6.3.4 There may also be the possibility that Mr Castleton made mistakes when paying out prizes to lottery winners, either in the cash transfer or in entering the transactions in Horizon. It may for example be possible to enter a lottery prize paid out as if it were a lottery sale.
- 6.3.5 At the time of the March 2004 audit of Mr Castleton's affairs the auditor noted a discrepancy of £1,769 re the lottery. This appears to relate to the stock of instant lottery tickets. In the weeks before the audit Mr Castleton had recorded the stock at between £1,400 and £2,800, the balance at 10 March 2004 being shown as £2,315. In the next week the stock was £527 and thereafter the stock remained at less than £700, after Mr Castleton had been suspended.
- 6.4 **Cash declarations**
- 6.4.1 In the Horizon system Mr Castleton was required to enter the closing cash in hand each day. This is a detailed declaration requiring the cash to be entered by individual denomination of note and coin.
- 6.4.2 In the Horizon system nominal code 1 is cash. For the months of January and February 2004 I have totalled the net cash movement for each day. I have then prepared a summary in **appendix 4** for January and **appendix 5** for February that takes Mr Castleton's last cash declaration for the previous month and then adds or subtracts the net cash movement for each day. I then compared the total that this produced with the cash declared at the end of the next day by Mr Castleton. This summary should help to identify on which day Mr Castleton's differences arise.
- 6.4.3 As can be seen from appendices 4 and 5 the calculated cash balance never agreed with the balance declared by Mr Castleton. Furthermore the discrepancy between the figures changes every day. I would not expect this to happen particularly on Saturdays when the post office was only open in the morning and had only a small volume of transactions. This suggests to be that Mr Castleton's daily cash counting may not have been accurate.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

6.4.4 If Mr Castleton had suffered from a problem with the Horizon computer system I would have expected to see that he was reporting a daily cash balance that suddenly fell below the cumulative calculated cash balance (as calculated in appendices 4 and 5) but that looking at the daily balances up to the next Wednesday there would be the same difference (or at least a very close one) until the weekly reconciliation was performed. There is no indication that this was happening in January and February 2004 at Marine Drive.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

7 ERRORS IN RECORDING RECEIPTS

7.1 Incorrect cash declarations

7.1.1 In his witness statement Mr John Jones of the Post Office comments at paragraph 12 about incorrect cash declarations.

7.1.2 Mr Jones refers to receipts into a customer's account reference 685 9461. I have examined the available information on this account covering the points that Mr Jones raises.

7.1.3 In his Daily Analysis – Cash Account for weeks 46, 47 & 50 [document 55] Mr Jones suggests that the three receipts were excluded from the weekly cash balances declared by Mr Castleton.

7.1.4 I have given photocopies of Giro Deposits – Office Copy slips which would appear to be printouts from the Horizon computer.

(a) Report dated 11 February 2004 timed at 16.20 shows a receipt of £16,537.25 for account 6859461.

(b) Report dated 18 February 2004 timed at 17.04 shows a receipt of £12,000.00 for account 6859461.

(c) Report dated 10 March 2004 timed at 16.46 shows a receipt of £12,000.00 for account 6859461.

7.1.5 From the detailed transaction listings these amounts can be seen to be entered into Horizon as follows:

(a) £16,537.25 at 15.08 on 11 February 2004 (entry by CTR002) posted to code 262 [Note that CTR001 is also in use as well as RSP001]

(b) £12,000 at 13.26 on 18 February 2004 (entry by LCA001) posted to code 262

(c) £12,000 at 11.55 on 10 March 2004 (entry by RSP001) posted to code 262.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

February

- 7.1.6 I firstly consider the February receipts which are covered by summary of cash movements in appendix 5. If Mr Jones is correct then I would have expected to see that Mr Castleton's daily cash declaration for the Wednesday to be much lower than the cumulative balance calculated from the recorded cash transactions. Also the normal pattern of transactions is that a sub-post office pays such as Marine Drive out cash each day so that I would expect the cash balance to decrease except for Thursdays when a remittance is usually sent by the Post Office. An increase in the daily balance, other than on a Thursday, implies that there has been a significant Girobank or similar banking of cash. This is not affected by money received in the form of cheques.
- 7.1.7 Mr Castleton has made end of day cash declarations of £24,602.27 on Tuesday 10 February and £33,100.41 on Wednesday 11 February.
- 7.1.8 On 12 February Mr Castleton received £70,000 from the Post Office so his declaration that day is much higher at £98,751.60.
- 7.1.9 Mr Castleton has made end of day cash declarations of £74,939.85 on Tuesday 17 February and £80,337.44 on Wednesday 18 February.
- 7.1.10 On 19 February Mr Castleton received £1,020 from the Post Office but paid £20,158.75 back implying that at this point he had too much cash. His daily declaration was £47,729.62.
- 7.1.11 My conclusions regarding the two February bankings are that they are entered in Horizon on the right day and the cash account increases on both days. Mr Castleton would therefore appear to have dealt with them properly as regards the entries in Horizon. There is a separate questions, which is outside of the matters covered by my report, as to whether Mr Castleton was ordering too much cash from the Post Office. The £70,000 remittance on 12 February appears excessive and as noted above Mr Castleton paid cash back to the Post Office the next week.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

March

7.1.12 I have seen a Weekly Cash Flow – Office Copy dated 17.55 on 10 March 2004 (produced by CTR002) [document 3] which gives the following daily totals for the third of the weeks reviewed by Mr Jones:

	£
Thursday	58,724.97
Friday	67,419.36
Saturday	70,870.41
Sunday	70,870.41
Monday	42,845.11
Tuesday	37,412.67
Wednesday	48,943.65

7.1.13 I have some daily Cash on Hand – Office Copy prints which cover the Saturday, Monday and Tuesday but not the Wednesday. I also have a copy of Thursday 11 March when the balance was £49,374.15. This is timed at 07.54 and apparently superseded the previous night's balance of £48,943.65, an increase of £430.50.

7.1.14 The 17 March 2004 Cash Account (final) shows that £25,000 was received in Remittances from ADC.. This is entered into Horizon at 14.59 on 11 March 2004 by LCA001. By the end of business on 11 March the cash declared had increased to £61,321.49 which implies that the net cash movement for the day was that the sub-post office had paid out £13,053. 11 March was a Thursday, normally the busiest day of the week for paying pensions. Reviewing the transactions for March I note that payments of pensions (nominal codes 177 to 185) amount to £12,743 on 11 March.

7.1.15 From this check I conclude that the £12,000 receipt on 10 March was included in the cash declared.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

- 7.1.16 In his witness statement Mr Gregory Booth, who was the temporary sub-postmaster after Mr Castleton was suspended refers to the customer for account 6859461. He explains that it was car auction in Bridlington and that during the period he operated the sub-post office the client would usually deposit around £15,000 to £20,000 in cash each week in one or two tranches, being by far the largest amount that the Marine Drive branch would receive in cash deposits each week. Mr Booth states that he never met the customer, the cash usually being left with Mr Castleton in the shop early in the morning before the post office counter opened. Mr Booth states that the cash was left in bag or boxes and there was no covering note stating how much cash there was; it was simply left to the Marine Drive branch to count and to pay into the customer's Girobank account. Mr Booth says that the paying in book was kept permanently behind the post office counter whereas it should have been retained by the customer.
- 7.1.17 Although this is an unsatisfactory way of operating it ought not to impact on the accounting system provided that the money was counted correctly and the banking then entered accurately in Horizon.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

8 REVIEW OF THE ACCOUNTING RECORDS

8.1 Introduction

8.1.1 I have reviewed the accounting records that I have been given to see if there are any apparent reasons for the differences which Mr Castleton has recorded.

8.2 Weeks prior to week 39 (ended 24 December 2003)

8.2.1 I am not aware of any differences that arose prior to week 39.

8.3 Week 39 (ended 24 December 2003)

8.3.1 Mr Castleton's line manager, Catherine Oglesby, explains in her witness statement that between approximately Christmas and New Year 2003 Mr Castleton telephoned her to say that he was £1,100 short in his cash account for week 39. Catherine Oglesby comments that this was the first time since Mr Castleton took over the post office in July 2003 that he had any major problems in balancing.

8.3.2 Catherine Oglesby paid a routine visit to Marine Drive on 16 January 2004 and at that time no explanation of the week 39 difference had come to light.

8.3.3 On 14 January 2004 (week 42) the final Horizon entry of the day (by CTR002) is to post £1,103.13 to code 222 suspense. One of the first entries for the next day, 15 January is a receipt of £1,103.00 posted to code 145 Surplus Discrepancy (suspense). I assume that at this point Mr Castleton paid in cash to cover the difference.

8.3.4 It is not clear what these entries mean. It could be interpreted that Mr Castleton was still looking for the loss and had decided to put it to suspense but changed his mind overnight.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

8.3.5 There is no indication as to how Mr Castleton dealt with the week 39 difference and when he paid the cash in. The normal procedure as explained at section 5.4 is that the sub-postmaster is required to put in his or her own cash to make up a shortfall. This should have been done when week 39 was balanced. If Mr Castleton did not make up the shortage until late then he should have asked to make a transfer to suspense. As he did not there is an implication that his cash declarations at the end of weeks 40 and 41 were overstated by the amount of the week 39 shortage.

8.4 **Week 40 (ended 31 December 2003)**

8.5 **Week 41 (ended 7 January 2004)**

8.5.1 There are no unusual entries in these weeks.

8.6 **Week 42 (ended 14 January 2004)**

8.6.1 Apart from the entries for the week 39 explained at 8.3 there are no unusual entries in this week.

8.7 **Week 43 (ended 21 January 2004)**

8.7.1 On 22 January 2004 a transfer of £4,230.37 to suspense account 222 is made.

8.7.2 On 20 January 2004 Mr Castleton processed two National Lottery error notices totalling a net £1,349. These are discussed in section 10.4 and represent National Lottery sales from 2003 that Mr Castleton had not accounted for. These have been posted to Horizon accounts "106 POL Error Notice Receipts" and "162 POL Error Notice Payments".

8.7.3 The effect of the error notice was that Mr Castleton owed the Post Office £1,349. In accordance with the terms of his contract Mr Castleton would have been required to make good this amount.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

8.7.4 From the January 2004 events report it would appear that Mr Castleton amended his cash declaration as there are two entries as follows:

21-Jan-04	17:48:59	LCA001	AA	DeclareCash Total £57933.37	Declaration Complete
21-Jan-04	17:53:24	LCA001	AA	DeclareCash Total £59370.87	Declaration Complete

8.7.5 The difference in these figures represents an increase in the declared cash of £1,437.50.

8.8 Week 44 (ended 28 January 2004)

8.8.1 On 29 January 2004 a further transfer of £2,523.12 to suspense account 222 is made.

8.8.2 The Horizon help desk log has the following message:

OPEN	Wed 28 January 2004 11:11 by uk951563 / HSH2	Saved: Wed 28 January 2004 11:13
New call taken by Dane Meah: Caller states that discrepencys are going through on the system. And this has been the case for 3 weeks in a row. Week 1: £1103 down. Week 2: 4230.97 down. Week 3 (today): approx. £2500.		

8.8.3 As previously discussed the first figure apparently relates to week 39.

8.9 Week 45 (ended 4 February 2004)

8.9.1 The final Horizon transaction on 4 February 2004 is a posting of £316.08 to code 145 Surplus Discrepancy (suspense). This was made by CTR002 and I note that all transactions that afternoon were either as CTR001 or CTR002. It is not clear whether Mrs Train was using both user numbers. It is possible to use more than one log in for example where someone is the only person in the post office and wants to use both terminals, each of which would then have a separate code.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

8.10 Week 46 (ended 11 February 2004)

- 8.10.1 The first entries on 5 February 2004 appear to relate to the National Lottery. They consist of entries for lottery sales of £289, instant ticket sales of £12 and cash prizes paid out of £9, a net total of £292. This is initially posted to cash but then immediately transferred to suspense code 222.
- 8.10.2 On 12 February 2004 a further transfer of £1,513.09 to suspense account 222 is made. On 13 February 2004 Mr Castleton makes a transfer of £8,243.10 to loss account 223. The combined effect of these two transactions is that the system cash will have been increased by nearly £10,000. However the £8,243.10 is reversed by transfers out of suspense in the following week.

8.11 Week 47 (ended 18 February 2004)

- 8.11.1 The last entry on 18 February 2004 is a receipt of £7,682.60 posted to code 145 Surplus Discrepancy (suspense).
- 8.11.2 One of the first transactions on the next day, 19 February 2004, is a further receipt of £560.50 again posted to code 145 Surplus Discrepancy (suspense).
- 8.11.3 Taken together these amounts clear the balance on the suspense account 222.
- 8.11.4 These transactions may explain why week 47 has a nil difference according to the cash account.
- 8.11.5 Note that this does not imply that Mr Castleton has paid in over £8,000 in this week. It simply represents a book transfer.

8.12 Week 48 (ended 25 February 2004)

- 8.12.1 There are two Horizon help desk log messages:

OPEN	Wed 25 February 2004 10:44 by GB082294 / HSH8	Saved: Wed 25 February 2004 11:03
	New call taken by Mary Rainbow: clerk reports that they have been having problems on the system when balancing that seems to be related to stock remmed in through the week	



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

OPEN	Wed 25 February 2004 17:30 by uk081216 / HSH6	Saved: Wed 25 February 2004 17:33
	New call taken by Kuljinder Bhachu: pm reporting that they are getting large descencies for the last few weeks.	

- 8.12.2 On the morning of 26 February 2004 a transfer of £3,509.18 to suspense account 222 is made.
- 8.12.3 On the morning of the next day, 27 February 2004, a transfer of £3,509.68 to loss account 223 is made. In view of the closeness in time and very similar amounts I would question whether Mr Castleton was actually trying to move the previous day's transfer from suspense to the loss account. If this was the case then he would have needed to reverse the first entry by making a posting to account 145 Surplus Discrepancy (suspense).
- 8.12.4 Mr Castleton received a further error notice for £862.32 relating to a cheque transaction which is discussed in section 10.5. In accordance with the terms of his contract Mr Castleton would have been required to make good this amount.
- 8.12.5 From the February 2004 events report it would appear that Mr Castleton amended his cash declaration as there are two entries as follows:
- | | | | | | |
|-----------|----------|--------|----|-----------------------------|----------------------|
| 25-Feb-04 | 18:35:24 | CTR002 | AA | DeclareCash Total £36226.05 | Declaration Complete |
| 26-Feb-04 | 07:29:20 | LCA001 | AA | DeclareCash Total £36598.05 | Declaration Complete |
- 8.12.6 The difference in these figures represents an increase in the declared cash of £372. It is not therefore clear that Mr Castleton made good all of the amount of the error notice which he had entered into Horizon shortly before making the 25 February cash declaration.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006**8.13 Week 49 (ended 3 March 2004)****8.13.1** There are some further Horizon help desk messages:

OPEN	Thu 04 March 2004 08:40 by uk951652 / HSH2	Saved: Thu 04 March 2004 08:42
	New call taken by Hayley Minnis: rim reports discrepencys in the office	

OPEN	Thu 04 March 2004 11:18 by uk952352 / HSH5	Saved: Thu 04 March 2004 11:28
	New call taken by Elspeth Neilson: Line manager states the PM is still getting large discrepancies and wants to know whats going on.	
Advice	Thu 04 March 2004 11:38 by uk952352 / HSH5	Saved: Thu 04 March 2004 11:38
	Advised the discrepancies are caused by the difference between the transactions they have recorded on the system and the cash they have declared, and are not being caused by the software or hardware. This is stated in closed call E0402251077.	
Information	Thu 04 March 2004 11:39 by uk952352 / HSH5	Saved: Thu 04 March 2004 11:39
	PM happy to continue unassisted. Ref no offered.	
CLEAR	Thu 04 March 2004 11:40 by uk952352 / HSH5	Saved: Thu 04 March 2004 11:40
	The discrepancies are caused by the difference between the transactions they have recorded on the system and the cash they have declared, and are not being caused by the software or hardware.	
CLOSE	Thu 04 March 2004 11:41 by uk952352 / HSH5	Saved: Thu 04 March 2004 11:41
	Call Close by Elspeth Neilson: Line manager	

8.13.2 On 3 March 2004 a transfer of £3.08 to suspense account 222 is made.**8.14 Week 50 (ended 10 March 2004)****8.14.1** On 10 March 2004 a transfer of £7,140.85 to suspense account 222 is made. There is no apparent reason for this.**8.15 Week 51 (ended 17 March 2004)****8.15.1** On 17 March 2004 a transfer of £498.99 to suspense account 222 is made, followed by a further amount of £9.96.**8.15.2** The final suspense posting by Mr Castleton is on 18 March 204 when a transfer of £48.50 to suspense account 222 is made. This may relate to the National Lottery as the entry follows a series of entries relating to the lottery..



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

9 THE ACCOUNTING RECORDS AFTER MR CASTLETON WAS SUSPENDED

9.1 The first temporary sub-postmaster

9.1.1 When Mr Castleton was suspended his line manager, Catherine Oglesby, arranged for a temporary sub-postmaster, Ruth Simpson, to operate the Marine Drive sub-post office. Mrs Simpson started on or about 23 March 2004 and worked there until 21 April 2004. She had been a sub-postmistress in Hull since 1999.

9.1.2 None of Mr Castleton's staff were permitted to work in the post office after his suspension. Mrs Simpson operated the sub-post office with the help of one of her staff from Hull.

9.1.3 Mrs Simpson therefore ran Marine Drive for five weeks (weeks 52 and 1 to 4). She explains in her witness statement that she was short in three weeks and over in the remaining two. Apart from week 1 the differences were less than £20. In week 1 Mrs Simpson was short by £101.95 which she states is likely to have been due to her assistant paying a pension twice in error.

9.2 The second temporary sub-postmaster

9.2.1 When Mrs Simpson returned to Hull she was replaced as sub-postmaster by Mr Gregory Booth who operated Marine Drive from 21 April to 28 May 2004, a further five weeks.

9.2.2 Mr Booth states that in weeks 5 to 9 he was between £14.26 over and £6.63 short on his cash account.

9.3 Conclusions

9.3.1 I would have expected that if there were computer problems affecting the accounting system that they would have continued in the weeks after Mr Castleton was suspended. There is no indication that this has happened.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

10 OTHER POSSIBLE REASONS FOR ERRORS

10.1 Introduction

10.1.1 I have considered the areas of the accounting system that could have resulted in losses of the size reported at Marine Drive. The weekly "cash account" that was produced when Mr Castleton was at Marine Drive is a form of trial balance as it includes as well as cash also stock, cheques, and banking and investment movements. It is not a complete conventional accounting trial balance as the Post Office does not identify sales of stock items. Sales of stamps, for example, are deducted from the stock of stamps. This may reflect that no profit I made by the sub-postmaster on these transactions and that the system adopted should assist in the reconciliation of stock.

10.2 The Marine Drive records

10.2.1 I have looked at the possibility that there might be a difference in the cheques received at Marine Drive. I have examined the transactions for Horizon code 2 cheques for January and February and in both months the total of cheques received is matched by cheques sent to the processing centre.

10.2.2 The movements in the stocks of stamps, postal orders etc do not appear to be large enough to cause significant differences.

10.2.3 My conclusion is that any differences within Marine Drive are likely to be within the cash account or in items associated with it.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

10.3 Errors

10.3.1 I have been provided with copies of witness statements from Post Office employees responsible for various aspects of the accounting system. These include individuals who are involved in checking those transactions which generate documents that are sent by the sub-postmaster to a central clearing centre, for example social security giro's that have been cashed. From time to time sub-postmasters make mistakes and where these result in a loss then the amount has to be repaid. Where the error is the sub-postmaster's favour then he or she is given credit for the amount. The Post Office operates a system of Error Notices which explain the problem to allow the sub-postmaster to investigate and then if necessary make good the error by paying in cash (or alternatively removing the amount of any surplus).

10.3.2 There are two occasions in the period that I have reviewed when Mr Castleton was sent error notices as shown on page 2 of appendix 2. These were entered by Mr Castleton in Horizon in weeks 43 and 48. However they relate to mistakes that took place many months earlier. I have examined how Mr Castleton has dealt with these.

10.4 National Lottery

10.4.1 Michael Johnson is employed as a postal officer in the Lottery Exceptions team. His witness statement deals with the procedures for checking National Lottery transactions. Mr Johnson explains that ten errors have arisen since Mr Castleton was appointed as sub-postmaster. The errors all arose before the period I am reviewing but three of them were dealt with in an error notice dated 16 January 2004, totalling £1,414 credit with a further £65 debit which is adjusted in the same week 43. The £1,414 is described as a charge error and Mr Johnson explains that this could arise if the sub-postmaster sold a lottery ticket but failed to enter the details of the transaction on to their Horizon computer system. The £65 is described as a charge error and the example given is where a sub-postmaster enters a lottery sale twice on Horizon.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

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- 10.4.2 Given that National Lottery transactions have to be entered twice, once through the Camelot terminal and then through Horizon the possibility for mistakes exists. A further complication is that the Marine Drive lottery terminal is actually in the shop rather than the post office. I assume that lottery purchases would initially be put through Mr Castleton's shop till(s) with a further possibility for error.
- 10.4.3 The National Lottery error notice was posted to Horizon by Mr Castleton on 20 January 2004. I note from page 1 of appendix 4 that the variance between Mr Castleton's cash declarations and the cumulative balance increases from £3,882 on 19 January to £5,235 on 20 January. It would appear that the £1,349 has not been repaid by Mr Castleton and it would seem that this is part of the £4,230.97 transferred to suspense on 22 January which is included in the Post Office claim as shown in appendix 1.
- 10.5 **Cheque transactions**
- 10.5.1 Gillian Hoyland is employed as a postal officer in the Cheques to Processing team. Her witness statement deals with the procedures for checking when customers pay for a product or service by cheque (for example they purchase a television licence and pay with a cheque). Gillian Hoyland explains that the only error arising in the period I am reviewing was an error notice dated 12 February 2004 for £862.32 which goes back to a discrepancy that occurred in the cash account week 17 September 2003.
- 10.5.2 This is included as an adjustment to receipts in the cash account on 25 February 2004 (week 48). This entry to nominal account 106 takes place at 18.29 when Mr Castleton is doing his end of week reports. The effect of posting an error notice is that the amount Mr Castleton need in cash to balance would have increased by £862.32. The declared cash figures before and after the transaction taken from the February events spreadsheet remained at £36,226.05. The final cash figure declared by Mr Castleton early the next morning was £36,598.05.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

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- 10.5.3 It is not therefore apparent that Mr Castleton made good the amount of this error notice which therefore would be part of the balance include in the claim by the Post Office.
- 10.5.4 The cheque and lottery errors mentions above are the only error notices to have been sent to Mr Castleton during the period I am reviewing.



BDO Stoy Hayward

Post Office Limited -v- Lee Castleton
Expert Report by Geoffrey W Porter
Draft report dated: 29 November 2006

11 EXPERT'S DECLARATION

- 11.1 I understand that my duty included in my providing written reports and giving evidence is to help the Court, and that this duty overrides any obligation to the party who has engaged me. I confirm that I have complied with my duty.
- 11.2 I confirm that insofar as the facts stated in my report are within my own knowledge, I have made clear which they are and believe them to be true and that the opinions I have expressed represent my true and complete professional opinion.
- 11.3 I have endeavoured to include in my report those matters, which I have knowledge of or of which I have been made aware, that might adversely affect the validity of my opinion.
- 11.4 I have indicated the sources of all information I have used.
- 11.5 I have not without forming an independent view included or excluded anything which has been suggested to me by others (in particular my instructing lawyers).
- 11.6 I will notify those instructing me immediately and confirm in writing if for any reason my existing report requires any correction or qualification.
- 11.7 I understand that:
- (a) my report, subject to any corrections before swearing as to its correctness, will form the evidence to be given under oath or affirmation;
 - (b) I may be cross-examined on my report by a cross-examiner assisted by an expert;
 - (c) I am likely to be the subject of public adverse criticism by the judge if the Court concludes that I have not taken reasonable care in trying to meet the standards set out above.
- 11.8 I confirm that I have not entered into any arrangement where the amount or payment of my fees is in any way dependent on the outcome of the case.

Geoffrey W Porter
BDO Stoy Hayward LLP
29 November 2006