

**Witness Name:** David Smith

**Statement No:** WITN05460100

**Dated:** 23 February 2024

**POST OFFICE HORIZON IT INQUIRY**

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**FIRST WITNESS STATEMENT OF DAVID SMITH**

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I, David Smith, will say as follows:

1. I am providing this statement following receipt of a letter from the Post Office Horizon IT Inquiry dated 28 November 2023, which made a request for information pursuant to Rule 9 of the Inquiry Rules 2006 – Request number 1, regarding matters falling within Phase 6 of the Inquiry: Governance.
2. I have followed the news in relation to the Horizon issues and understand the importance of the Inquiry. Whilst it cannot change what the Sub-Postmasters ('SPMs') went through, I hope that it will assist in bringing them some peace and a better understanding around what happened and I am pleased to be able to participate. This statement is written to the best of my recollection and with my deepest sympathies to everyone who was and continues to be

affected by the Horizon IT issues and the related legal action taken against them. I only held the role of Managing Director for 7 months and subsequently left the Royal Mail Group ('the Group') in 2011. Inevitably my recollection of this short period in office has been limited by the passage of time but I have done my best to answer the Inquiry's questions to the best of my knowledge.

3. I can confirm that I have had legal assistance in producing this statement from Ashfords LLP. When seeking to obtain legal assistance, I was initially assisted by Post Office Limited to confirm the availability of insurance coverage to cover the associated legal costs.

## **Background**

4. I graduated from Kent University with a degree in Accounting and Economics and qualified as a Chartered Accountant with The Institute of Chartered Accountants in England and Wales in 1989. By the time I joined the Post Office Limited ('POL') in 2010, I had around 25 years of experience in finance and general management across various sectors. My career history leading up to joining the POL was as follows:
  - October 1986 – May 1990: Audit Senior at Spicer and Oppenheim (Deloitte Touche)
  - June 1990 – April 1994: Mercury Communications (Cable and Wireless PLC) UK Start up Utility
    - 1990 – 1992: Management Accountant
    - 1992 – 1994: Financial Planning & Analysis Manager

- May 1994 – October 1999: Birmingham Cable (Telewest PLC) (£100m Business)
  - 1994 – 1996: Financial Controller
  - 1996 – 1999: Finance Director
- May 1999 – October 2001: RS Components UK (Electrocomponents PLC) (£400m Business)
  - 1990 – 2000: Finance Director
  - 2000 – 2001: Head of Business Development
- August 2002 – 2010: Royal Mail Group PLC (£9bn business)
  - 2002: Finance Director Business Sales and Solution
  - 2003 – 2006: Finance Director Parcelforce
  - 2007 – 2009: Managing Director Parcelforce
  - 2010: Managing Director (“MD”) POL

5. I took the role of MD at POL from April 2010 and left towards the end of that same year, although I cannot recall the precise date. My time as MD of POL was around 7 months in total. As a main Board director, I also held a number of subsidiary directorships on behalf of the Group and when I left POL, I moved back to the Group to become Chief Customer Officer. Paula Vennells took over as MD after I left, although I remained a director at POL for around a further 7 months, until July 2011 when I also left my role as Chief Customer Officer at the Group.

6. Having left, I became Chief Executive Officer ('CEO') of City Link, a subsidiary of Rentokil Initial PLC and remained in this role until December 2014. During the following year and a half I carried out various short-term consulting assignments at F22 Consulting until June 2016, when I became CEO at Bellrock Property and Facilities Management until June 2022. From October 2022 to March 2023, I was Interim Managing Director at Serco Environmental Services. Starting in July 2023, I became CEO at Lifetime Training, a UK market-leader as an apprenticeship training provider and I remain in this role to date.

#### **Role as Managing Director at Post Office Limited**

7. As noted above, I commenced my role as MD of POL in April 2010 and remained in the role until around the end of the same year.
8. In terms of my appointment, I can recall that I was interviewed by Donald Brydon, Chair of the Group at the time, as well as a Government Shareholder Executive, although I cannot recall their name. It was a full external process, following which I was appointed.
9. At the time, POL was one of the UK's largest retailers with around 12,000 branches, 8,000 employees and circa 11,500 SPMs. As MD, I was responsible for the overall running of the business and I had full Profit and Loss accountability. At that time POL was approximately a £900m turnover business. During my time as MD, I still reported to the CEO of Group, Moya Greene.

10. My priorities at the time were to steer POL through the 2010 general election and start work on the privatisation of the Post Office, helping to establish a strategy for separation. The financial position of POL was poor, which was exacerbated by the banking crisis in Ireland given that all of our financial services were linked to Irish banking. My primary goal was to steer the business through this difficult time and stabilise its financial position, including obtaining a financial settlement with the government and support for the State Aid claim through the European Union.

11. The Board was responsible for the roll-out of the upgrade of 'Horizon' to 'Horizon Online' and therefore this was ultimately my responsibility. I feel it important to point out that, in light of the major issues facing the business outlined above, my primary focus was on keeping the business afloat in a financially precarious time and, as a result of this, and the fact that the roll-out was already well underway, Horizon Online was a lower priority.

12. When I joined POL I knew very little, if anything, about its role in respect of prosecutions. However, I am almost certain that when I joined I had a briefing from the head of each department to inform me about what they did and how they worked. Sue Crichton (Company Secretary) was Head of Legal at the time and therefore she would have given me an outline of the role of the Legal Department and I assume that this briefing would have covered the criminal enforcement work but I am unable to recall any specific details.

13. As MD, I had oversight of all of the departments including Legal, IT, Problem Management and the Security/Investigation department. However, they were all headed up individually and I did not manage any of them directly or have any involvement in day-to-day activity or departmental decisions. My responsibility was to make sure that the teams were adequately resourced and carrying out their duties in line with the agreed departmental responsibilities.

14. All of the heads of department would give monthly Board reports, providing an update on their department. For example, in Legal's monthly report, they would provide an update on outstanding cases. My knowledge and involvement in the investigation and prosecution of SPMs was limited to these reports and having a general oversight of the department, with the primary responsibility for prosecutions lying with the head of department. I have not been provided with any of the Legal Board Reports for the time that I was MD and I am unable to recall any details but anything major or any specific problems would have been reported up to the Board. I only held the role of MD for around 7 months and during this time, no material changes were made to the involvement of the Board in legal matters.

15. I cannot recall any changes to policies, guidelines or practices followed by POL in respect of criminal prosecutions or civil proceedings, including investigating alleged offences and the process of disclosing documents. I had no involvement in the establishment of the practices and policies that POL adopted in respect of suspending or terminating SPM's contracts. All of

the mechanisms were already in place when I arrived and did not change during my short time in the role. From what I can recall, as a subsidiary of the Group, most of the policies and procedures of POL were derived from and identical to those used by the Group.

16. Where any changes to policies, guidelines or practices were required, a specialist in that area would draft them and present them to the Board, who would review and adopt them. For example, I can recall that Health and Safety and GDPR policies were reviewed annually by the Board.

17. I had no involvement in the conduct of audits of SPM's branch accounts.

### **Horizon**

18. When I first arrived in April 2010, the Post Office was rolling out a new generation of the Horizon system. Within my first week, it was clear that the new system was causing problems at branches where it had already been rolled out as there were issues with freezing of accounts which meant that individual branches could not trade. I can recall that I was asked by the Operating and IT Teams to escalate the problems we were having to Senior Fujitsu team, to see if they could expedite a fix. I can remember holding a discussion, where I asked Fujitsu to sort out the issue otherwise we would have to roll back to the old system. I cannot remember the details but the specific issue which I had been asked to raise was quickly resolved and we then continued with the roll out to the new Platform. The report of Rod Ismay (**POL00107129** - discussed further below) later addressed the issue of

freezing of accounts, in light of concerns about accounts integrity when transactions were cut off mid-flow. The report states *“transaction alerts were in place and revised operational instructions have now been issued to enable branches to complete or to cancel the accounting entries dependent on whether they physically completed the cash transaction with the customer.”*

(P.8 of the report). In light of this report, I do not recall being concerned that the freezing of accounts was causing or contributing to a lack of integrity to the Horizon IT system as, in my mind, it had been resolved.

19. Later on, in around June or July 2010, I remember that some questions were raised regarding Horizon, in light of a parliamentary question from Ms Patel (Member of Parliament) and a Channel 4 news report which was looking into the losses that SPMs were experiencing. I believe that the Board were asked by the Department of Business, Innovation and Skills (“BIS”) (now known as the Department for Business and Trade) to pull together answers to these questions and conversations were subsequently held between management Board members – Mike Young, Mike Moores, Paula Vennells and myself – on looking into whether the system was robust. I believe that Sue Crichton and other senior management would have been involved in these conversations as well.

20. I cannot recall precisely what happened next but I can remember that we asked for confirmation as to why we were being told that the system was robust. This resulted in a report being written which I understand has been named ‘the Ismay Report’ by the Inquiry. I have discussed the report in



further detail below but had the report given any sense that there was a problem, we would have done a deeper dive into the system. However, it was unequivocal in telling us that the system was robust and providing reasons as to why.

### **POL corporate structure and governance**

21. My role as MD and company director at POL was no different to any other CEO or director role. I had a fiduciary responsibility to the stakeholders to manage the business in proper financial and regulatory terms and to produce and execute a strategic plan which supported the aims of the shareholders.
  
22. Underneath these overriding duties, I had a responsibility for allocation of budget and resources and making sure that the right control systems were in place for risk management and finance. These were all in place when I arrived and I do not think that I changed anything material about the governance of the business when I was there.
  
23. The Inquiry have asked me to set out my understanding, at the time I joined POL, of what risks and/or compliance issues could arise from POL prosecuting SPMs for theft and false accounting and pursuing civil litigation against them to recover alleged shortfalls in branch accounts. I do not recall now exactly what my understanding of the risks and/or compliance issues was at the time but I have attempted to set out below an explanation of what I

believe my understanding would have been and what my thoughts are on it now.

24. As a Crown Office, POL dealt with public money and therefore had a responsibility to protect the public purse. This included making sure that all of the monies were properly accounted for and protected with one of the most obvious risks being money stolen from tills. In order to discharge this responsibility, the organisation needed to have a system of checks and balances in place, such as daily and weekly balance checks and internal audits. These systems were already well established long before my arrival. So too, was the practice of prosecuting those who had demonstrably been shown to have stolen from the organisation or shown to have falsified accounts. I cannot recall thinking that any risk or compliance issues arose from POL undertaking this role, but with the benefit of hindsight, and in light of the wrongful prosecutions, I can see the inherent risks in the prosecutions taking place 'in house' and not by an independent enforcement authority.

25. The below summarises what my views were on the responsibilities of a Board of Directors in the operation of a company solely owned by HM Government, in respect of:

- a. oversight of criminal prosecutions brought in the name of the company;
- b. oversight of civil litigation brought by or against the company;
- c. oversight of the company's IT;

- d. oversight of any accounting system the company used to collate individual transactions, cash or stock declarations etc. used for the purposes of preparing management and statutory accounts; and
- e. oversight of the company's compliance with the Race Relations Act 1978 and/or Equality Act 2010.

Oversight of criminal prosecutions brought in the name of the company and oversight of civil litigation brought by or against the company

26. My views on 'a' and 'b' above are the same and are as follows: it was the responsibility of the Board of Directors to make sure that we were identifying potential risks to the business of loss of assets. This included having a robust set of investigation processes and procedures to include taking reasonable and proportionate legal action where the investigation justified such action being taken. The Board would receive monthly reports from the Legal Team and had a responsibility to ensure that any issues raised in those reports by the Head of Legal were addressed and that the team was appropriately resourced. Head of Legal, Sue Crichton, had responsibility for the day-to-day running and oversight of civil and criminal prosecutions.

Oversight of the company's IT

27. At the time, Mike Young was the director responsible for operation of the back office, including IT. Under him there was an IT director, Lesley Sewell. As with all departments, the IT team would produce monthly reports to the Board, providing an update on the day-to-day functions of the systems, any

data changes and activities of development of the system. The Board had a responsibility to fund, install and maintain appropriate IT systems to run the Post Office. There would have been an annual technology strategy which would say where IT investments were needed in the business and which would be signed off by the Board. Mike Young would then report back to the Board the progress on new installations and upgrades, as well as general IT progress. As with all departments, the Board would receive monthly reports from IT and any major issues would be reported up to the Board, with the day-to-day oversight lying with Mike Young. The Board had a responsibility to respond to any issues identified in these reports and ensure that the team was adequately resourced.

*Oversight of any accounting system the company used to collate individual transactions, cash or stock declarations etc. used for the purposes of preparing management and statutory accounts*

28. I cannot recall having any involvement in this aspect as the physical system was managed by an IT function. Use of the accounting system was managed by Mike Moores (Financial Director) and the finance team. Operational use of the Horizon system would have been managed by Paula Vennells, (Chief Operating Officer), whilst maintenance of the IT estate more generally was managed by Mike Young and the IT Team. However, as with our oversight of IT, the Board had a responsibility to fund, install and maintain appropriate systems and controls to allow the team to carry out their role. The Board would also receive monthly reports which gave them a general oversight of the accounting system so that they could respond to any issues raised and ensure that the team was appropriately resourced.

Oversight of the company's compliance with the Race Relations Act 1978  
and/or Equality Act 2010

29. At the time, the Human Resources director was Debbie Moore and therefore I think that this would have been her responsibility. As with all departments, the Board would review the team's monthly reports and had a responsibility to ensure that any issues raised in those reports were addressed and that the team was appropriately resourced. The Board would establish policies, procedures and a reporting structure and appropriate training to ensure that the business discharged its legal responsibilities under the Act. I believe that these were closely linked to, if not identical to, the Group.
30. The Inquiry have asked me to summarise the corporate structure of POL and the Group when I joined POL as director. I cannot recall much detail as it was very complicated but in simple terms, POL was a subsidiary of the Group and all of the POL subsidiaries reported up into POL.
31. The Group, as a matrix organisation, had a Public Limited Company Board with a Chair, a number of Non-Executives, a Group CEO, Group Chief Finance Officer, Company Secretary and Group Functional Leads, such as Human Resources and a set of Divisional Managing Directors, including Post Office and the international subsidiary, 'GLS'.
32. There was a separate POL Board, generally Chaired by the Group Chairman. It too, had a non-executive member, and I believe the Group CEO and CFO, plus the Post Office MD, Post Office FD and COO.

33. Both Boards would meet typically monthly, and all meetings were minuted.

The leadership style at both meetings was very similar and typical in my experience of a Corporate Board with a suitable balance of debate, challenge and opportunity for people from different standpoints to provide input.

34. The Group had sub-committees in place as you might expect around other matters, such as Treasury, Audit, Remuneration, Nominations and Health and Safety. POL as part of the Group would input as appropriate to those sub committees, and I believe also had its own Audit Committee. Their meetings were less frequent as directed by the main Board but I would expect from memory that they would have met at least quarterly.

35. Once it became clear that the Government intended to separate Royal Mail and Post Office it became necessary to put in place a clear line between the two organisations. I remember for example that the then CEO of the Group, Moya Greene stepped off the POL Board, and that we started to recruit an independent Chair, Alice Perkins, who joined just after I left the Group.

36. In terms of the operations of the POL Board, I believe that they met formally monthly, and the Executive Team would have most likely met weekly. The monthly meetings followed a strong set formula and agenda which would be signed off by a combination of The Chairman (Donald Brydon), other Board members and myself. There was also a rolling agenda to look at all parts of

the business across the year. So for example, we would inspect the Sales performance and plan maybe twice a year.

37. As referenced above, the monthly POL Board meetings would include an update from the different departments, as well as each of the Board members. Dependent on what was going on at the time, we would then have a deep dive into specific subjects that were tabled. We spent a lot of time discussing business strategy because we needed a new strategic plan to take to Government. This included discussions around the general financial position of the Post Office Group that at the time was financially weak and we needed a new settlement with the Government. We also spent a lot of time on working through the implications of the separation of POL and the Group.

38. The Executive Team of POL met less formally in weekly meetings which discussed the day-to-day and weekly operations of the business. These would discuss upcoming issues that we needed to prepare for, any operational challenges and general updates in each director's respective area. The general purpose of these meetings was to communicate what was happening on a week-to-week basis and check in if anybody needed any help.

39. The weekly meetings were much more operational and would not have been attended by the Chair, Group CEO or non-executives. Attendees would have generally been my first report team including individuals such as Mike

Moores, Paula Vennells, Sue Crichton, Mike Young and Debbie Moore, as well as myself.

40. In terms of reporting, each department produced their own report which would measure their Key Performance Indicators and would look at the Change Agenda that they were managing and identify any areas of risk and concern or opportunities that they wanted to flag. There would be a standard finance report each month and a standard 'change programme pack' that we would go through on a monthly basis. I think that there was also a general KPI pack, as well, giving the headlines of the operating metrics of the business. I cannot remember if this was a separate pack or included as part of reports. Sitting alongside this, investment cases were typically presented to the Board for any new investments that people wanted to get approval for. There would also be standard items such as minutes from the previous meetings and action points.

41. If a member of the Executive Team did not attend POL Board meetings, then they would still provide a report and sometimes send a substitute. If a substitute could not attend, then the Board would report back to them after the meeting just as you would expect in any other company.

42. POL was a subsidiary company and therefore I would also report to the Group on a monthly basis and sat on the Group Board where we would have a standing item to talk about POL for part of the session and provide an update on whatever was relevant.



43. The POL Board had differing levels of IT expertise, depending on their role and responsibilities, but central to that, Mike Young and Lesley Sewell were subject matter experts and had day-to-day responsibility for IT. The rest of us were not experts in the systems but were obviously aware of their importance from an operation and strategic perspective.

44. The Inquiry have asked me to set out to what extent, if at all, the POL Board discussed the Horizon IT system and the bringing of prosecutions or civil proceedings against SPMs, whilst I was MD. Without the Board meeting minutes I cannot answer definitively but it is my recollection that these issues would have been discussed by the Board. The monthly report from IT would have talked about the Horizon system upgrade roll out and the monthly report from Legal would have talked about prosecutions and civil proceedings. Separately, we had questions raised through the Summer of 2010 following the Channel 4 programme and Parliamentary Questions about the Horizon system that we were talking about. Beyond this general overview, I cannot recall exactly what was discussed.

45. I do not know and cannot comment to what extent, if at all, other teams, groups or departments within Post Office Limited discussed these matters.

46. It was my opinion at the time that the corporate structure of POL and the Group was adequate to fulfil its responsibilities. It was also my view that POL's overview of these responsibilities was adequate.

47. As far as I can recall, there was no material change to the governance structure during my time. We were starting to prepare for the separation of the Group and so we were starting to think about how we would have to work differently with the shareholder executive and BIS because the interests of the Group and POL were no longer aligned. Towards the end of my time as a director we did commence the recruitment of an independent Chair, which was established during July 2011 in contemplation of separation. However, it was a significant amount of time after I left that the separation took place.

48. In terms of how the Government maintained oversight of POL, I can recall that we reported to the Government Shareholder Executive, providing regular updates on performance and finance etc. although I cannot recall the exact nature of the reports. As discussed above, I had periodic meetings with the minister (Ed Davey) where we would discuss a range of things, but the vast majority of these meetings concerned the strategic plan around privatisation, refinancing, state aid and the Irish banking crisis. I would also have had regular dialogue with the Civil Service Team at the Department of BIS, supporting the minister through a series of regular phone calls and email correspondence.

49. At the time, I thought that the oversight was good and the Government were very supportive. There was a challenge in that, following the election, we had the first coalition Government in years and both sides of the Government had different agendas for what they wanted to do with the business meaning that

there were some challenges in terms of understanding what the direction of travel would be. Therefore, a lot of my time was spent discussing what we wanted the Post Office to be and how we would fund it effectively. The Government also recognised the potential conflict of interests between the Group and POL and were supportive in the establishment of an independent Chair.

### **Knowledge of Horizon**

50. When I commenced employment at POL, the only knowledge that I had of the Horizon IT System was that it was the main operating system of the business. I was not aware of any bugs, errors or defects within Horizon, that there was a lack of integrity within Horizon, or of any complaints in respect of the same.

51. I do not believe that I had any training on the Horizon IT System as this was not needed because I was not operating it on a counter.

52. When the integrity of the Horizon IT System was challenged, questions were raised with Fujitsu and later on, I requested a report to look into these challenges (the Ismay report). I have discussed this report in more detail below. These questions were not personally raised by me to Fujitsu but I cannot recall who did have direct contact with them. I also went out and about in the business and saw the system first-hand and became more aware of its functionality.

53. The Inquiry have provided me with document **POL00041564** – Rebecca Thomson’s article published in Computer Weekly on 11 May 2009. I cannot remember whether I read it before the Inquiry provided it to me although it was written before I joined POL and I do not recall being briefed on this article specifically when I joined the business. It is my recollection that I was aware of the existence of a Computer Weekly article by Summer 2010 which was when I had taken steps to ask questions about Horizon within the business.

#### **Horizon Online**

54. I have considered document **FUJ00174292** – email from Gavin Bounds to Gilbert Roger on 9 April 2010 and **POL00001615** – Forward one2eleven Programme document for 9 April to 15 April 2010.

55. When I joined POL, it had already started the extensive rollout of the next generation of the Horizon IT System. This is reflected in document **POL00001615** with p.3 confirming that *“the Horizon Online pilot continues to run at 614 branches, but further branch migrations remain suspended due to the series of live service interruptions which have occurred since 26 March.”*

56. I cannot recall having seen the email dated 9 April 2010 (**FUJ00174292**) before. Upon review, it is reflecting on a call that I had with the Fujitsu senior team in my first couple of weeks to facilitate the fixes to the screen freeze issues which were identified within the Horizon IT system. This was the

extent of my direct involvement with the management or oversight of the pilot and roll out of Horizon Online.

57. In terms of the acceptance process for Horizon Online, there was a programme set up to roll it out which had started before I joined. I recall that there was an acceptance criteria for 'go' and 'no go' which the Project team had set up. This would have been brought to the Management/Executive Board to discuss and we would have agreed as a team what steps were needed to fix it in order for us to say yes, you can now roll it out further. The acceptance was a team decision, instead of any individual making the decision.

58. At the time I joined, I was not satisfied that Horizon Online was an adequate system because it was having issues with freezing and needed to be fixed. Once these issues were fixed and it had gone through extensive trials in the pilot phases and we were happy that it demonstrated that it did what we wanted it to do, we were satisfied that it was an adequate system. I did not directly set any of the criteria or do any of the testing.

#### **Concerns raised by SPMs, MPs and journalists**

59. All concerns raised by SPMs, MPs and journalists would be received, and dealt with, by our Executive Correspondence Team. Anything that would have come from an MP or a Stakeholder, which was addressed to me, would be managed by that team. This includes the letter dated 5 June 2010 from Mrs Stubbs (**POL00004669**). The Executive Correspondence Team would

deal with the specifics of any questions and raise relevant enquiries of the business to answer them. They would then draft a response, obtain sign off from a stakeholder and send it to me if I needed to sign the letter.

60. I did not have any involvement in the day-to-day running of the legal cases and any complaints which were of a legal nature would have been handled by the Executive Correspondence Team, through the Legal Team. I may have subsequently heard about them in the monthly Board report if they were material.

61. We would often get letters from local MPs worried about Post Offices in their constituencies closing and from local stakeholders worried because we were in the middle of a strategic review. Therefore, it was not unusual to have a letter coming in from an MP saying that they were worried. I cannot remember the numbers but I think that we would have received a few letters a day from various stakeholders including MPs. This was higher than in other sectors and industries that I had worked in, but the public focus upon the Post Office was amplified and different to anywhere else I had worked due to community responsibility and involvement. I can recall seeing letters from all manner of people in public office, including David Cameron. Generally these were letters about 'save our Post Office' or asking for extra services. From memory, I do not recall seeing any relating to the Horizon IT System specifically and I do not recall seeing any in respect of criminal or civil litigation. Again, all of this correspondence, would be dealt with by the Executive Correspondence Team.

62. Our policy in respect of complaints was generally to reply to everybody who wrote to us but each case was individual and had to be treated as such. We did not have a cookie cutter template which said the answer that we would provide.

Concerns raised by Pamela Stubbs

63. In respect of the concerns raised by Pamela Stubbs, I have reviewed the following documents:

- i. **POL00004669** (letter from Pamela Stubbs dated 5 June 2010);
- ii. **POL00004866** (letter from Simon Smith to Pamela Stubbs dated 8 June 2010);
- iii. **POL00106847** (bundle regarding Barkham Post Office date 18 February 2011).

64. I cannot recall reading the letter from Pamela Stubbs to me dated 5 June 2010 (**POL00004669**) prior to having received it from the Inquiry and it appears to have been answered by Simon Smith, part of the Executive Correspondence Team (**POL00004866**). This reaffirms my recollection that I did not deal with these matters but that they were dealt with by the Executive Correspondence Team.

65. I cannot recall and the documents do not assist me in knowing, what investigation took place. I am therefore unable to comment on whether Ms Stubb's case was handled differently to usual.

66. The Executive Correspondence Team were set up to answer all complaints and they would have enquired with the relevant departments to understand the issue and draft a response. If appropriate, the answer might appear on my desk to cast an eye over but this did not always happen. I do not know if it happened in this case and cannot recall having seen either letter prior to receiving them from the Inquiry.

67. I had very limited involvement in dealing with individual complaints and in this case, the letter is not signed by me which means it is unlikely that I would have had any involvement. It is fairly standard in large businesses for a team to be set up to deal with correspondence to the MD.

68. I do not recall this complaint and therefore have no knowledge of the issues raised within it relating to shortages caused by the Horizon IT System.

Concerns raised by Priti Patel MP

69. I have reviewed document **POL00001762** (letter to Priti Patel MP on 20 July 2010). The letter is signed by me and states the following:

*“there has been no evidence found that shows that the Horizon system has caused accounting errors. I am satisfied that there is no evidence to doubt the integrity of the Horizon system and that it is robust and fit for purpose.”*

70. I have not seen any information to assist me in relation to the work undertaken in order to provide this letter. It is likely that either myself or a



member of the Executive Correspondence Team would have approached the Legal Team, the IT Team and the Operational Team to ask for their opinions and rationale as to why our stance was that the Horizon IT System was robust and why we are certain of this view. This is a letter from an MP raising serious concerns and would have been something which I took very seriously. I am confident that I would not have written my response without being satisfied at the time with what we were saying, and based on the provision of relevant information. I appreciate that this is an incomplete answer, noting too that this was sent before the review by Rod Ismay. I appreciate that the Inquiry may be concerned as to how I was able to make those representations prior to that review being carried out. I would like to assist the Inquiry further, but in order to do so, I would need to see further information, including relevant Board level reporting and minutes, correspondence within the Executive Correspondence Team, correspondence between the Executive Correspondence Team and the Board (including myself) and any other relevant information.

Channel 4

71. I have reviewed my email to Mike Young and others on 21 July 2010 at p.3 of **POL00120481**.

72. Leading up to this email, various questions were being raised in respect of the Horizon IT System, including a Parliamentary Question from Priti Patel. We were also made aware that Channel 4 would be running a news item on

the same issue. I have not seen any minutes around this subject matter and so cannot be certain on the detail, but I recall that the questions caused us as a Board to talk through concerns and agree what we should do in response to them.

73. My email is addressed to Mike Young (Head of IT), Sue Huggins (Operational lead) and Mike Moores (Finance Director) and it looks from the email like we met and chatted to work our way through our responses. Due to the passage of time, I cannot say why these particular questions laid out in my email were asked, but they are likely to be a combination of what I was asking, what the team was asking and the Parliamentary questions. In brief, these questions ask why were we confident that Horizon was robust. These questions are not an attempt to set up a formal internal investigation into Horizon but were designed to stress test why our stance was the way it was in terms of our defence of the robustness of the system and, from there, judge if we needed to go further in our investigations.

74. I believe that after this email and the general conversations around these questions, the Board needed somebody to carry out the review and I asked Mike Moores to take the lead. Mike and I agreed that Rod Ismay would be a good person to carry out the exercise which he did, resulting in him producing a report back to the Board (**POL00107129**). I cannot recall the specifics as to why Rod Ismay was selected but he was a senior member of the team, being one level down from the Board, had been in the business for many years and had extensive knowledge of Horizon as a Department Head,

responsible for the running the accounting for Horizon. He was also an auditor by training and well-respected in his role.

75. There was a strong desire from all parties to produce an answer quickly and an internal review was the first step to achieving this. Had this report given any suggestion that there needed to be an independent review, I am confident that we would have requested one, but the report was unequivocal in saying that the Horizon IT system was robust and providing reasons as to why. There was no suggestion that it could be tampered with or that there were any aspects of it which suggested fault and needed further investigation.

76. In respect of the above, I feel it important to add that my recollection is very limited due to the passage of time. I would have expected that there were formal parliamentary questions which, in the normal course of events, would have been relayed to us by BIS. I would also expect that there would be internal correspondence within the Executive Correspondence Team, between the team and the Board of Directors including myself, as well as correspondence between them and relevant parts of the business where they have sought information in order to respond to correspondence received. However, I have not had sight of any of this correspondence or any related Board minutes. Should any additional documents in respect of these subject matters be forthcoming, I would be happy to review and assist further where I can.

### **Receipts and Payments Mismatch Bug**

77. I have reviewed document **FUJ00081584** (Receipts/Payments Mismatch issue notes). I did not work directly with any of the individuals listed in this note. This document is undated and so I am unsure as to whether it was produced during my time. However, I cannot recall being aware of the bug described in this note.

### **The Ismay Report**

78. I have reviewed document **POL00088957** (email chain on 2 August 2010) and **POL00107129** (the Ismay report dated 2 August 2010).

79. As noted above, the report was requested in response to the concerns raised around the robustness of the Horizon IT System, including a Parliamentary Question raised by Priti Patel. It was not intended to be a full investigation into Horizon, but to answer the questions being put to POL about the Horizon issues.

80. I do not recall who gave Rod Ismay the direct instructions but it is likely that he would have spoken to both our Finance Director, Mike Moores and myself about it and we would have provided the context of why it was needed. I would have said that the Board felt uncomfortable that we were saying the Horizon IT System was robust in light of the complaints raised and that we wanted him to provide a paper on whether the system was robust or whether there were any issues that should concern us.

81. A formal terms of reference was not provided but the email dated 21 July 2010 at 19:04, contained in document **POL00120481**, lists the questions that the report was asked to cover.
82. It is not clear from what is presented if more formal instructions were laid out and signed off. With the benefit of hindsight a better defined set of terms may have been useful, but it is clear from what is presented that the key issues are questioned and would have covered those issues being asked at the time. I also believe that I spoke with Rod Ismay to further explain the context for the request for him to carry out a review. I cannot say for definite but I expect that I asked him to produce an answer for Parliament and to provide a response to the Channel 4 news item and therefore I wanted to get something which would quickly but effectively confirm what our position was and if it was incorrect. At no time did I or the Board steer Rod to a specific answer to any of the questions in the report.
83. The report is unequivocal in saying that the Horizon system is robust and that any accounting errors are attributable to user error. It states *"We remain satisfied that this money was missing due to theft in the branch – we do not believe the account balances against which the audits were conducted were corrupt."* It also says that *"the integrity of Horizon is founded on its tamper proof legs..."*. This is something that I had been told many times i.e. that nobody could get into the system to tamper it.

84. I cannot recall how we used the report once we received it and whether we circulated the entire report to respond to the questions or drafted responses based on the report.

85. I have not received any meeting minutes and am unable to recall any briefing that we received with the report or meetings to discuss the same. However, I believe that the Board sat down with Rod and went through the report in fine detail. The report is addressed to the entire Senior Management Team across the business for their input and comments upon the document. As such, it would have been reasonable for the Board to assume that all material elements had been reviewed and that any dissenting views were captured.

86. At the time, I do not think that we thought that there was any merit in commissioning a further report by an IT expert or a forensic accountant or similar to test the reliability of Horizon as the report was clear-cut in its position. There was nothing in it which suggested we should investigate Fujitsu or Horizon further. Following the report, the case of Seema Misra put the Horizon IT System to the test at trial and the expert evidence was tested by the defence. This gave the same result that the Horizon IT System was robust and I do not think that the issue was raised materially again during my time.

87. I have read Rod Ismay's statement dated 13 January 2023 (**WITN04630100**) and note that he says that he was asked to summarise existing conclusions.

This is simply not my recollection and I do not believe that this is inferred by the email correspondence which sets out the basis upon which I requested the review to be carried out (**POL00120481**). I also disagree with the comments that he made during the course of his live evidence to the effect that I was only seeking one side of the story.

***R v Misra***

88. I have reviewed **POL00169170** (email from Rod Ismay to Jarnail Singh and others on 22 October 2010). Within this email chain there is an email from me dated 21 October 2010 at 15:17 to Rod Ismay, Mike Moores, Mike Young and Paula Vennells saying *“Brilliant news. Well done. Please pass on my thanks to the team.”* This email was sent in response to Jarnail Singh reporting back on the case of Seema Misra, that she was found Guilty of theft after a lengthy trial. It was intended to be a congratulatory email to the team, knowing that they had worked hard on the case.

89. However, knowing what I do now, it is evident that my email would have caused Seema Misra and her family, substantial distress to read and I would like to apologise for that. My comment of ‘brilliant news’ was in relation to me thinking that it was brilliant news that, in my mind, Horizon had been proved to be robust following the testing of the expert evidence in the trial. Even if this had been a correct conviction, I would absolutely never think that it was ‘brilliant news’ for a pregnant woman to go to prison and I am hugely apologetic that my email can be read as such. Regardless of the result, I would have thanked the team for their work on the case. However, seeing

this email in the light of what I know now, I understand the anger and the upset that it will have caused and sincerely apologise for that.

90. I had no involvement in building or running the Misra prosecution although it was reported through Sue Crichton's team to the Board on a regular basis and so I was aware of it. I can recall that it was seen as significant following the Channel 4 news item, because it was the first time that the robustness of Horizon would be put to the test in Court, with expert evidence involved.

91. The case ran parallel to a time when the Board were preoccupied with sorting out the refinancing of the Group and securing a £1.5bn investment from government and supporting in the subsequent State Aid approval process. Therefore, although we were aware of the case, at Board level we were not heavily focused on it as our attention was on keeping the business running.

## **Resignation**

92. In around November / December 2010, it became clear to me that the direction that the government wanted to take the POL in was not the same as the direction that I wanted to take it in. At this same time, I had the opportunity to move back to the Group as Chief Customer Officer which was a promotion and so I took that opportunity. I was still director of the POL Board for 6 or 7 months following but handed over the day-to-day running to Paula Vennells.

## **General**



93. Although my time within POL was brief, I have spent a lot of time reflecting on it and whether there is anything that I would have handled differently. I think that this is something that everybody has thought about and it is impossible not to feel a huge sense of regret and remorse, regardless of ones own involvement.

94. When concerns were brought to light around the Horizon IT System, I requested a review which was carried out by Rod Ismay which was unequivocal in its answer. We were never provided with any suggestion that the Horizon IT System could be tampered with and always reassured of the opposite. Had we known that this was not true, we would have approached things differently. Knowing what I do now, I should have asked for an external, independent review to take place even if that meant not being able to respond quickly to news reports or questions about Horizon. At the time we were repeatedly given reassurance that the system was robust.

95. In the period I was there, it was a time when there was growing concern around the separation of the business, coupled with a banking crisis which had the potential to bring down the Group. These were incredibly weighty matters and my priorities at the time were on the survival of the business. Because of this, maybe the Board were not as focused as we could and should have been on the Horizon issues.

96. Looking back, I think that there was an institutional bias to not interrogate further what was being said by SPMs and the public about Horizon. At the time, the Board took comfort from knowing that there were systems and processes in place for the management of cash and stock. Looking back, there were potential opportunities missed at the time of the Ismay report to dig deeper, or to consider an external investigation. However, if the fundamental position of Fujitsu remained that it was tamper proof, the Investigation Teams were not raising any issues identified during investigations, and Legal were not raising any issues regarding the safety of taking legal action, it is not clear to me that during my short time, the Board would have necessarily acted any differently at that time.

97. I had no involvement in prosecutions and therefore do not feel that I am able to comment on the approach to prosecutions or related disclosure. However, it is important for any public organisation to demonstrate that the public purse is safe and I think from that angle, I would have expected the Post Office to use its powers to prosecute where there was robust evidence of theft or false accounting provided that the prosecutions proceeded in accordance with a robust enforcement policy and any other relevant legal framework or guidance. I cannot comment on disclosure as I did not have any involvement in any of the cases.

98. Having reviewed the documents provided to me by the Inquiry and having followed the news around the Horizon IT System, my overarching view is threefold: firstly, that for my short time, there were many other priorities

critical to the survival of the business which I think meant that POL was not as focused on Horizon as it could have been; secondly, that we did instigate a review to stress test the organisation's position regarding the reliability of Horizon but that review was insufficient and it meant that the Board did not reach the correct conclusion; thirdly and most importantly, that I hold a huge sadness that this happened. I am fully aware of just how long Campaign for Justice has been going on for and I can only look on with huge regret that it took so long to uncover and then begin to right the suffering caused.

### Statement of Truth

99. I believe the content of this statement to be true.

Signed:

**GRO**

Dated: 23<sup>rd</sup> February 2024

### Index to First Witness Statement of David Smith

No	URN	Document Description	Control Number
1.	POL00107129	Memo from Rod Ismay to Dave Smith Mike Moores and Mike Young Re Horizon - Response to challenges regarding system integrity	POL-0105437
2.	POL00041564	Bankruptcy, prosecution and disrupted livelihoods - Postmasters tell their story; reported by Rebecca Thomson - Article	POL-0038046

3.	FUJ00174292	Email chain from Gavin Bounds to Duncan Tait, RE: Post Office	POINQ0180473F
4.	POL00001615	Weekly Highlight Report - Forward one2eleven Programme - F1-000 - By Sue Whalley, Dave Smith & Neil Ennis	VIS00002629
5.	POL00004669	Letter from Mrs P J (Pamela) Stubbs to Mr Smith (Post Office Ltd) re: Horizon Issues and Shortfalls	VIS00005737
6.	POL00004866	Letter from Simon Smith to Mrs P J Stubbs RE: Response to letter dated 5 June	VIS00005934
7.	POL00106847	Email chain between Security - Fraud Team personnel concerning investigation into SPM Stubbs - Barkham Office	POL-0105155
8.	POL00001762	Letter from David Smith (POL Managing Director) to Priti Patel MP, responding to Parliamentary Question re Horizon	VIS00002776
9.	POL00120481	Email chain from Mark Burley to Mike Young, Sue Huggins cc Nick Beal and others re: RE: Urgent channel 4 horizon issue	POL-0126172

10.	FUJ00081584	Receipts/Payments Mismatch issue notes	POINQ0087755F
11.	POL00088957	Email from John Breeden to Angela Van-Den- Bogerd cc: Sue Huggins, Tracy Marshall and Lin Norbury RE: Horizon Integrity final report	POL-0080918
12.	WITN04630100	Statement of Rod Ismay dated 13 January 2023	WITN04630100
13.	POL00169170	Email from Rod Ismay to Jarnail A Singh, Mandy Talbot, Hugh Flemington and others re Regina v Seema Misra - Trial result	POL-0167423