

In the Crown Court at Dudley

T.2004/7026

**R -v- Carl Adrian Page**

**Expert Accountant's Report of David Liddell**

**16 May 2005**

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## **1 Introduction**

### **The Writer**

- 1.1 I am David Liddell. I am a Forensic Services Partner with PKF. I am an associate of the Institute of Chartered Accountants in England and Wales. Full details of my qualifications and experience entitling me to give expert evidence are in Appendix A. I have prepared this report with the assistance of Konrad Rutkowski, a Chartered Accountant and manager in PKF, who has worked under my direction and control. The opinions given in this report are my own.

### **Summary of the Case**

- 1.2 The two defendants, Carl Adrian Page ("Mr Page") and John Edward Whitehouse ("Mr Whitehouse") are charged jointly with conspiring to defraud Post Office Limited ("POL") between March 2002 and January 2003. Mr Page alone is charged with theft within the same period of £282,000.
- 1.3 Mr Page was sub-postmaster at Rugeley Post Office in Staffordshire which offered Bureau de Change facilities on demand to customers. Mr Whitehouse was a customer of the Bureau de Change and purchased significant amounts of Irish Punts then Euros. The allegation against Mr Page is that he conspired to defraud POL by offering favourable exchange rates to his co-defendant.
- 1.4 The charge of theft of £282,000 against Mr Page follows the conclusions of a POL audit on 14 January 2003 that a sum of £282,000 of foreign currency was missing from Rugeley Post Office.

### **My Instructions**

- 1.5 I have been instructed by Messrs Frisby & Co, solicitors for Mr Page, to review the documentation in this case and prepare a report on the Bureau de Change transactions with Mr Whitehouse and to compare my findings with those in the Prosecution witness statements and exhibits.
- 1.6 A considerable amount of evidence in this case comes in the form of printouts from the Forde Moneychanger (a machine which performs currency conversions whilst also having an accounting function) ("FM") and the Horizon computer system at Rugeley Post Office.

- 1.7 Specifically, I am instructed to
- (a) Examine all original documents used in the preparation of the Prosecution schedules;
  - (b) Examine FM documentation;
  - (c) Examine Horizon documentation;
  - (d) Compare our own calculation to those of prepared by the Prosecution;
  - (e) Examine the auditing methods used by the Royal Mail Group, in particular the audit work carried out that concluded that £282,000 was missing at Rugeley Post Office;
  - (f) Review Mr Page's personal accounts to show the extent to which he profited from the alleged fraud.
- 1.8 In section 2 of this report I set out a summary of my comments and conclusions on the case. I set out my detailed findings in sections 3 to 6.

### **Documents on Which I Have Relied**

- 1.9 A list of the documents on which I have relied is in Appendix B.
- 1.10 Unless presented with evidence to the contrary, as there is no allegation of falsified or forged documentation in this case, I am instructed to assume that the documents disclosed to me are genuine.

### **Other Matters**

- 1.11 I have not carried out an audit, nor have I independently verified any of the information with which I have been provided. This report should not be construed as expressing opinions on matters of law, although it necessarily reflects my understanding thereof.
- 1.12 I understand that it is not part of my duties as an expert to make findings of fact and these will be a matter for the Court in due course. I am aware that if the Court makes findings of fact that are different from those I have assumed my conclusions may be invalid and may need to be revised.
- 1.13 I understand that this report will be made available to the prosecution. It has been prepared for use in this action. In all other respects, this report is confidential. It should not be used, reproduced, or circulated for any other purpose, in whole or in part, without the prior written consent of PKF. Neither PKF nor I accept any responsibility to third parties for breaches of this obligation, or for any opinions expressed, or information included, within this report.

## 2 Summary of my Findings and Conclusions

- 2.1 I have examined the Euro transactions of the Bureau de Change at Rugeley Post Office throughout the indictment period.
- 2.2 In total I have identified:
- 119 transactions confirmed on FM till rolls show that Mr Whitehouse purchased 12,209,600 Euros and US dollars for £7,339,366. If the correct RETAIL SELL RATES had been used, Mr Whitehouse should have paid £7,988,957, a difference of £649,591 (paragraph 5.6).
  - An additional 20 cheques from Mr Whitehouse totalling £1,111,476 that are not included above due to missing FM till rolls. Consequently the precise number of Euros purchased with these cheques is not known (paragraph.5.8)
- 2.3 The prosecution identify (on MP/5) 110 transactions with Mr Whitehouse over the indictment period, excluding the transaction dated 13 January 2003. The total of Euros purchased by Mr Whitehouse with these transactions is €11,772,450 for which he paid £6,725,340. By my calculation, if the correct exchange rates had been applied, Mr Whitehouse would have paid £7,318,142, a difference of £592,802 (paragraph 5.9).
- 2.4 In the majority of cases Euros were sold to Mr Whitehouse at a rate just below the rate at which they were booked into the FM (RETAIL BUY RATE), giving POL a small profit when measured against the Retail Buy Rate (paragraph 5.10).
- 2.5 In my opinion it is possible that Mr Page was not aware that the Retail Buy Rate was itself a 6% devaluation from the Wholesale Buy Rate at which POL purchased the foreign currency, details of which are set out in paragraphs 3.19 to 3.32 of this report. As such Mr Page might have believed that the transactions with Mr Whitehouse generated a small overall profit for POL.
- 2.6 On the matter of the theft charge, a key question is whether Mr Page could have built up a significant 'AM' stock of Euros of around €456,000 (£282,000 converted at €1.62) which the prosecution allege that he stole. I have examined evidence of the deliveries of Euros to Rugeley Post Office throughout the indictment period and compared them to:

- (i) the payments by Mr Whitehouse for Euros and a normal underlying level of Euro sales; and
  - (ii) the FM Command 10 printouts of all Euro sales by Rugeley Post Office.
- 2.7 Both these analyses indicate that a surplus of Euros of approximately €456,000 could not physically have been built up in the 'AM' stock or elsewhere. All the Euros delivered to Rugeley Post Office were entered into FM and my analysis shows that sales of those Euros match, or exceed, the deliveries (paragraphs 6.45 to 6.49). This contradicts the findings of Mr Manish Patel which form the basis for the theft charge against Mr Page.
- 2.8 I have also considered the possibility that timing differences account for the alleged shortfall of 'AM stock' that is set out in Mr Patel's schedule at MP/6 (Appendix G to this report). I have identified the possibility that a delay between the date that sales of Euros to Mr Whitehouse were entered on FM and the date he physically collected the cash could explain the calculation of the alleged discrepancy.
- 2.9 The prosecution have relied on evidence of a difference between the amount of foreign currency recorded on the Horizon system and the amount shown on FM in support of their assertion that a surplus of £282,000 of Euros built up and was stolen by Mr Page from Rugeley Post Office. It is my contention, based on my analysis of the deliveries and sales of Euros, that no such surplus of Euros existed.
- 2.10 My examination of POL audit methods has been limited to the preparation of Mr Patel's schedule alleging the £282,000 discrepancy.
- 2.11 I have not been provided with details of Mr Page's personal finances so I have been unable to review the extent to which he may have profited from the alleged fraud. If I am provided with this information before the trial date I may be instructed to prepare a supplementary report on these matters.

### **3 Foreign Currency Handling Procedures at Rugeley Post Office**

3.1 I set out in this section my understanding of foreign currency handling procedures at Rugeley Post Office which I have obtained from reviewing the Bureau de Change Counter Operations Manual, witness statements and discussions with Mr Page.

3.2 The following descriptions are of the procedures for handling cheque and cash foreign currency transactions. Transactions using Traveller's Cheques and debit/credit cards are not described below as these are not relevant to the charges against Mr Page.

#### **Foreign Currency Orders**

3.3 Orders for foreign currency are placed by a telephone call or fax from the branch post office to the National Secure Stock Centre (NSSC). If a fax is sent, an order form P5056 must be completed. My understanding, if the order is placed by 2p.m., it will be delivered to the post office the following morning.

#### **Foreign Currency Deliveries**

3.4 When the post office branch receives foreign currency from the stock centre in Hemel Hempstead, it does so via a special delivery pouch conveyed by secure transport. Each pouch will contain a maximum of £2,500 in foreign currency.

3.5 A delivery advice note is enclosed within the pouch which provides a breakdown of each type of currency enclosed, the volume of currency and its sterling value based on the exchange rate shown on the advice note. The exchange rate is the previous day's RETAIL BUY RATE, the day the currency was ordered.

#### **Recording Foreign Currency Transactions**

3.6 The post office branch is then required to input the volume and exchange rate of each currency into the Forde Moneychanger ("FM"), as detailed on the advice note received with the pouch.

3.7 FM is a foreign exchange calculator that performs a variety of functions:

- It calculates the value of foreign currency in sterling
- It prints a customer receipt

- It keeps a running check on currency stock levels at the Bureau de Change
  - It provides information for full daily and weekly accounting
  - When rates of exchange are entered, the electronic rateboard on display in the Bureau de Change is updated automatically
- 3.8 The branch is advised by fax of the foreign exchange rates applicable each day which should be received by 9am each day. Saturday rates are advised on Friday afternoon by 4pm. The rates should be entered into the FM before the post office branch opens or as soon as the information is received. Saturday rates should not be entered until Saturday morning. Once the rates are entered, they will be displayed on the electronic rate board.
- 3.9 The rate sheets show exchange rates for transactions up to the value of £5,000. A special rate for transactions over £5,000 can be obtained by contacting First Rate Travel Services (FRTS) by phone.
- 3.10 Sales of foreign currency to a customer are performed on the FM. The appropriate currency is selected and the amount of foreign currency required by the customer entered. The FM then calculates the amount charged in sterling. At this point the transaction can be cancelled or confirmed. If the customer wishes to continue, payment in sterling is taken from the customer who is then given one part of the FM till roll receipt along with the foreign currency purchased. The other part of the FM till roll receipt is placed in the Bureau de Change till.
- 3.11 Acceptable methods of payment include cash, cheque, banker's drafts and building society cheques and debit/credit cards. Cheques should be accompanied by a valid cheque guarantee card and the cheque amount should not exceed this value.
- 3.12 At the close of each day, a COMMAND 3 ("COMM 3") is to be performed on the FM. This prints a report showing the transaction summaries for the day and the closing rate balances of all currencies. The 'Sterling Till Balance' should be checked that it agrees with any sterling cash and cheques on hand. The 'note balances' total for each currency should be checked that it agrees with the currency on hand.
- 3.13 If the daily totals are agreed it is recommended that the transactions are cleared using the 'Clear Daily Total' prompt. The COMM 3 report should then be filed in the Bureau de Change till until the end of the Cash Account week.

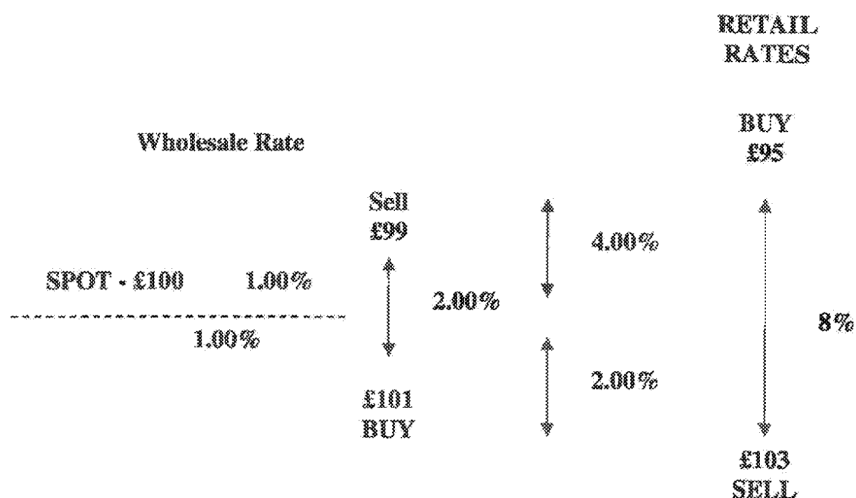


**Weekly Accounting**

- 3.14 The cash account week runs from Thursday to Wednesday.
- 3.15 At the end of the cash account week, weekly printouts of all totals must be obtained from the FM by printing a COMMAND 10 ("COMM 10") weekly summary.
- 3.16 The COMM 10 summarises the :
- Total sterling value of foreign currency held
  - Revaluation total
  - Commission total
  - Breakdown of sterling value held per each individual currency
- 3.17 The commission and revaluation total are then entered onto a 'Commission and Revaluation Summary P4833' form. For an example, see Appendix C.
- 3.18 The revaluation amount taken from COMM 10 printout should then be despatched to FRTS team in Chesterfield.

**Explanation of the Revaluation Total**

- 3.19 Mr Page's understanding of the "Revaluation Total" is relevant in this case. The witness statement of Hugh Stacey gives an illustration of the different exchange rates and seeks to explain the "revaluation total". For ease of reference, I reproduce below a diagram which Mr Stacey exhibits to his witness statement.



3.20 With regard to the diagram above, Mr Stacey states:

*"In terms of the illustration if we were to buy £100 from FRCS/FRTS, Post Office Limited would buy this for £101. Upon receipt of the Post Office Network (Cash Centre) the £101 would be converted in value to £95 which represents the retail buy rate, this devaluation loses the Post Office £6 in value which is held on its books at the central cash centre. If the currency being held in the Post Office outlet was subsequently sold to a customer this would be done at the retail sell rate, which in the illustration would be £103. In terms of the outlet the revaluation within their accounts should show the full difference between the retail buy and the retail sell rates, which in the example is £8. The true income earned from this transaction is the difference between the revaluation on sale and the initial devaluation, which is £8 minus £6 giving £2 income generated."*

3.21 I set out my understanding of the revaluation total below.

3.22 In March 2002, POL, in partnership with the Bank of Ireland, formed a joint venture company to fund foreign exchange dealing within the Post Office network, called FRTS. This joint venture provides foreign currency to the PO network.

3.23 On a daily basis POL buys currency from FRTS. This currency is bought at the WHOLESALE BUY RATE for that particular day, which has been contractually agreed between POL and FRTS reflecting the rate that currency can be sourced from the wholesale currency market.

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- 3.24 Upon receipt by POL, all currency is converted from the WHOLESALE BUY RATE to the RETAIL BUY RATE. This conversion involves the currency being devalued, on average by 6% of the currency's value.
- 3.25 When the currency is delivered to the post office branches, it is entered onto the FM at the RETAIL BUY RATE.
- 3.26 Currency is sold to Bureau de Change customers at the RETAIL SELL RATE, details of which are provided to the post office branches on a daily basis by fax. The difference between the RETAIL SELL RATE and the RETAIL BUY RATE is known as the RETAIL SPREAD and represents the gross profit on the currency dealings. The retail spread is approximately 8% of the retail buy rate.
- 3.27 This RETAIL SPREAD is what generates the revaluation figure when performing a COMM 10.
- 3.28 However, as the currency has already been devalued by approximately 6%, the true gross profit generated for POL is the difference between the RETAIL SPREAD and the initial devaluation.
- 3.29 The witness statement dated 4 September 2003 of Mr Raj Kalsi states, *"My basic understanding of the revaluation figure on the COMM 10 is the profit or loss made by the buying and selling of currencies at different exchange rates and the fluctuations of the exchange rates during that week"*.
- 3.30 At the time of his witness statement, Mr Raj Kalsi had been employed as a Product Support Manager by POL for approximately 8 years and had been employed by POL for approximately 15 years. His role involved providing operational expertise to POL for counter procedures. He also provided content for the 'Counter Operations Manual for Bureau de Change on Demand' in 1998.
- 3.31 I have been unable to identify a clear explanation or definition of the Revaluation Total from the 'Post Office Operators Manual – Bureau de Change on Demand', copies of which are provided to the sub postmasters. Similarly I can find no explanation in the manual of the Wholesale Buy Rate, the Retail Buy Rate and the differences arising between the two.

- 3.32 Mr Page states that he understood a positive revaluation total on COMM 10 to mean that income and profit was being generated for POL. He was not aware that an initial devaluation had occurred which, if taken into account, could turn a positive revaluation total into a loss to POL.

## 4 My Analysis of The Evidence

4.1 To summarise and analyse the evidence of foreign currency dealings with Mr Whitehouse that has been disclosed to me, I prepared a master spreadsheet of the transactions occurring during the indictment period from March 2002 to January 2003.

4.2 A copy of the full spreadsheet is at Appendix D.

4.3 In the remainder of this section I describe in some detail the various columns and analysis within the spreadsheet in Appendix D. In section 5 of this report I comment on key findings arising from my analysis. In section 6 I comment on my analysis in relation to the alleged theft by Mr Page of £282,000 from Rugeley Post Office. Column references below are to the columns of data in Appendix D.

### **Column 1 – Delivery Date**

4.3 This is the date of delivery of Euros to the Rugeley Post Office as per the prosecution schedule LGH/04.

### **Column 2 – Euros delivered to Rugeley PO**

4.4 This is the amount of Euros delivered to the Rugeley Post Office as per the prosecution schedule LGH/04.

### **Column 3 – Wholesale Buy Rate**

4.5 This is the rate at which POL has purchased the currency from FRTS and is obtained from prosecution schedule LGH/05. The rate used is as per the delivery date in Column 1.

### **Column 4 – Rate transferred in per FM**

4.6 This is the RETAIL BUY RATE, the rate at which the Euros have been entered in to the FM once received at Rugeley Post Office.

### **Column 5 – Cheque Date**

4.7 The date entered onto the cheques written by Mr Whitehouse for currency purchases from Rugeley Post Office.

- 4.8 In certain instances, copies of the cheques were not available, or the photocopy was of a poor quality and the date could not be recognised.

**Column 6 – Transaction Date**

- 4.9 The date of the sale of the currency to Mr Whitehouse. These are taken from copies of the FM till rolls. The transactions were easily identifiable due to the large amount of currency purchased.

- 4.10 Not all of the FM till rolls were however present, therefore there are several instances where the information is not available.

**Column 7 – Day**

- 4.11 The day of the week applicable to the transaction date.

**Column 8 – Time**

- 4.12 The time of the transaction, as per the FM till rolls.

**Column 9 – Cheque Number**

- 4.13 The number of the cheque used in the currency transaction. If more than one cheque has been used, these have been grouped together.

**Column 10 – Amount**

- 4.14 The amount of each cheque in pounds Sterling.

**Column 11 – Euros Bought**

- 4.15 The volume of Euros purchased in each transaction, taken from the FM till rolls.

**Column 12 – Rate Applied to Mr Whitehouse**

- 4.16 The rate at which Euros were sold to Mr Whitehouse in each transaction, taken from the FM till rolls.

**Column 13 –Retail Sell Rate of £5K**

- 4.17 The rate at which the sale of Euros should have occurred. This information is taken from the prosecution schedule as no other evidence was available. Consequently I have been unable to verify it. I have been provided with the daily fax sheets to Rugeley Post Office with the rates for the various currencies, but this is only for transactions up to £5,000.

**Column 14 – PO Euro Amount**

- 4.18 This is the amount that Mr Whitehouse would have paid if the RETAIL SELL RATE in column 13 was used in the sale transaction i.e. Column 11 x Column 13.

**Column 15 – Difference**

- 4.19 This is the difference between Column 14 and the amount Mr Whitehouse actually paid (Column 10).

**Column 16 – Cheque Sent**

- 4.20 This is the date that Mr Page despatched Mr Whitehouse's cheques from Rugeley Post Office. Mr Page has stated that he sent the cheques on a weekly basis following the end of the cash week (Wednesday). I have assumed, therefore, that the cheques received each cash week were sent on the Thursday morning.

**Column 17 - Cheque Cleared Bank**

- 4.21 This is the date the cheques cleared the bank. The dates have been identified following a review of the bank statements of Mr Whitehouse.

**Column 18**

- 4.22 This is the number of days taken for the cheque to clear.

**Column 19**

- 4.23 These are additional comments relating to each transaction.

## 5 My Findings

### Key Findings

- 5.1 In this section I set out my key findings and observations from my analysis at Appendix D.
- 5.2 The spreadsheet at Appendix D could not be completed fully due to the missing FM till rolls for certain dates.
- 5.3 I have identified additional transactions with Mr Whitehouse that were not identified by the prosecution. I have achieved this by reviewing those FM till rolls obtained from Mr Whitehouse in person or from his vehicle or home following his arrest and by reviewing copies of cheque payments to POL.
- 5.4 In total, in the period 9 March 2002 to 13 January 2005, I identified 119 transactions from the FM till rolls.
- 5.5 I identified an additional 20 cheques from Mr Whitehouse for the purchase of the Euros. These cannot be matched to corresponding FM till roll transactions, as the till rolls are missing. However these cheque payments are included on my spreadsheet.
- 5.6 The 119 transactions confirmed on FM till rolls show that Mr Whitehouse purchased 12,209,600 Euros and a small quantity of US dollars for £7,339,366. If the correct RETAIL SELL RATES had been used, Mr Whitehouse would have paid £7,988,957, a difference of £649,591.
- 5.7 For 7 of these transactions, the actual RETAIL SELL RATE is not known and, for the purpose of this analysis, I have therefore assumed that the rate applied to Mr Whitehouse was the correct RETAIL SELL RATE. The volume of Euros sold during these transactions was £411,500.
- 5.8 The additional 20 cheques included above total £1,111,476. As the FM till rolls for these transactions are missing, I do not know the precise number of Euros purchased.
- 5.9 The prosecution schedule (MP/5) identifies 110 transactions excluding the transaction dated 13 January 2003 and, over the indictment period, show that Mr Whitehouse purchased €11,772,450 for which he paid £6,725,340 to POL. By my calculation, if the correct exchange rates had been applied, Mr Whitehouse would have paid £7,318,142, a difference of £592,802.



- 5.10 In the majority of instances, the Euros were sold to Mr Whitehouse at a rate just below the rate at which they were booked into the FM (RETAIL BUY RATE), giving POL a small profit when measured against the Retail Buy Rate.

**Example 1** On 19 March 2002, 50,000 Euros were booked into FM at a rate of 1.7075 (Sterling equivalent £29,282.58). These were subsequently sold to Mr Whitehouse at a rate of 1.7 (Sterling equivalent £29,411.76), at a "profit" of £129.18.

**Example 2** On the 17 October 2002, 85,000 Euros were booked into FM at a rate of 1.6743 (Sterling equivalent £50,767.48). These were subsequently sold to Mr Whitehouse at a rate of 1.67 (Sterling equivalent £50,898.20), at a "profit" of £130.72.

- 5.11 I note that on other occasions Euros were sold to Mr Whitehouse at the RETAIL BUY RATE, the same rate at which the currency was entered into FM giving no "profit" to POL. I selected 31 sale transactions of Euros to Mr Whitehouse at random and compared them to the delivery of the Euros to Rugeley Post Office and when they were entered onto FM. Out of these 31 transactions, Euros were sold to Mr Whitehouse at the same rate as the RETAIL BUY RATE on 3 occasions.

Transaction Date	Retail Buy Rate	Euros Sold to Mr Whitehouse
02 May 2002	1.7113	1.7113
24 October 2002	1.6725	1.6725
20 December 2002	1.65	1.65

- 5.12 I identified three instances where, following a purchase of Euros, Mr Whitehouse additionally purchased US Dollars. This occurred on the 28 May 2002 (purchase of \$450), on 14 October 2002 (purchase of \$1,500) and 19 September 2002 (purchase of \$1,200). Mr Whitehouse received preferential rates for these US Dollar transactions, despite them not being over the value of £5,000.

- 5.13 On 2 occasions, the cheque provided by Mr Whitehouse for the purchase of Euros was £10,000 less than the transaction value per the FM till roles. These are summarised below.

Transaction Date	Euros Purchased	Transaction Value (£)	Cheque Value (£)	Difference (£)
22/03/2002	43,200	25,411.76	15,411.76	10,000
28/03/2002	45,000	26,315.79	16,315.79	10,000

- 5.14 On 2 other occasions, the cheque provided by Mr Whitehouse for the purchase of Euros was greater than the transaction value for the FM till rolls. These are summarised below:

Transaction Date	Euro Purchases	Transaction Value (£)	Cheque Value (£)	Difference (£)
11/11/2002	350,000	212,765.86	213,090.96*	345
17/12/2002	160,000	97,560.98	98,560.98	1,000

\*Payment comprises of 2 cheques.

- 5.15 I identified 29 transactions where Mr Whitehouse paid for the Euros with more than one cheque. Payment for these 29 transactions was made by 66 cheques. In each of these transactions, only one entry was made on FM.

## 6 Theft of £282,000

- 6.1 Mr Page alone is charged with the theft within the indictment period of £282,000. The charge of theft against Mr Page follows the conclusions of a POL audit on 14 January 2003 that a sum of £282,000 of foreign currency was missing from Rugeley Post Office. I summarise below the prosecution evidence in support of this alleged offence.

### Prosecution Evidence

- 6.2 Following the arrest of Mr Whitehouse on 13 January 2003, Mr Manish Patel ("Mr Patel") an Investigation Team Manager for POL, requested that one of his team members, Mr Colin Price, make arrangements with the Post Office Audit Section to have Rugeley Post Office audited on Tuesday 14 January 2003.
- 6.3 On the evening of 13 January 2003, at approximately 20:50 hours, Mr Patel attended the premises of Rugeley Post Office along with a member of his team and a number of Police Officers. A search of the branch was conducted by the Police, including the contents of the Bureau de Change till.
- 6.4 Five cheques were found in the till, drawn from account 71392875, RPX Recycled Plastics Limited. These are exhibited as item number NJW/5 and are summarised as follows:

	Cheque Number	Cheque Date	Amount (£)	
	1.	100148	02/01/03	278,181.82
	* 2.	100159	13/01/03	100,000.00
	* 3.	100160	13/01/03	100,000.00
	* 4.	100161	13/01/03	100,000.00
	* 5.	100162	13/01/03	60,493.83

- 6.5 The four cheques marked \* amounted to a Sterling value of £360,493.83, which matches the value of the Bureau de Change receipt found on Mr Whitehouse at the time of his arrest. This was payment for €584,000. All five cheques listed above were seized by the Police.
- 6.6 On Tuesday 14 January 2003, Mr Patel attended Rugeley Post Office and met up with 4 members of the Post Office Audit Team who commenced a full audit of the branch.
- 6.7 Following the audit, Mr Glynn Burrows of the audit team completed a written report of the audit which is summarised below. The report is shown in Appendix E.

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**Summary of Audit Report**

- 6.8 A shortage of £645,345.18 at Rugeley PO was identified by the audit team. The reason for the shortage is explained by:
- |  |                    |
|--|--------------------|
| (a) 5 cheques seized by Police on 13 January 2003    | £638,675.65        |
| (b) Differences in the currency and Sterling on hand | £ 3,583.14         |
| (c) 'AM' stock unit shortage                         | £ <u>3,086.39</u>  |
|  | <u>£645,345.18</u> |
- 6.9 The report states that part of the 'AM' stock shortage relates to postage being sold on credit to a number of firms. The 'AM' stock is a term used to describe the stock of currency held within the branch but outside the Bureau de Change stock. In other words, it includes currency that has been received by the branch but not entered into FM.
- 6.10 Traveller's Cheques on hand were unable to be verified as the Police had taken away the Bureau register containing details of the cheques on hand.
- 6.11 The difference of £282,000 and subsequent theft accusation against Mr Page arose during investigations following the audit. Mr Patel came to the conclusion that cheque number 100148 should not have formed any part of the accounts at Rugeley Post Office on 14 January 2003 and that there was an unidentified loss of £282,000 in the 'AM' stock unit.
- 6.12 The HORIZON snap-shot in Appendix F (exhibit KO/01), identified foreign currency with a sterling equivalent of £282,000. However, during the Post Office audit on 14 January 2003, the auditors did not find any currency held in the 'AM' stock unit.
- 6.13 Cheque number 100148, for £278,181.82 had originally been assumed to be payment for the alleged missing 'AM' stock. This was later disregarded, as cheque number 100148 had actually been given to Mr Page to cover three cheques given by Mr Whitehouse in December 2003, which may have potentially 'bounced' due to insufficient funds in the bank account.
- 6.14 An unexplained difference of £282,000 is therefore identified and this forms the basis for the theft charge.

**Mr Page's explanation**

- 6.15 Mr Page has stated that cheque number 100148 was indeed given by Mr Whitehouse to cover three cheques potentially 'bouncing'. Mr Page states that he was given this cheque at the start of January 2004.

**My Investigation**

- 6.16 I reviewed the prosecution schedule, MP/6 (Appendix G). This is a schedule illustrating how the difference of £282,000 was built up on a weekly basis. The schedule covers the period 7 March 2002 to 14 January 2003. I identify the potential for timing differences to build up between the amounts of cash recorded on the Horizon and FM systems that form the basis for this schedule (see paragraphs 6.26 to 6.43 below).
- 6.17 I also investigated whether the £282,000 actually existed by comparing the number of Euros delivered to the Rugeley Post Office with the Euros sold per the COMM 10 print outs. That is, I sought to establish whether a surplus of Euros had built up in the 'AM' stock in the manner alleged in MP/6. My detailed analysis of the delivery and sale of Euros is attached in Appendix H. The process that I followed is described below.
- 6.18 First, I listed all the Euros delivered to Rugeley Post Office in the period 8 March 2002 to 13 January 2003, as per the prosecution schedule LGH/04. The information is taken from column 2 of my spreadsheet at Appendix D.
- 6.19 I then compared this to the number of Euros bought by Mr Whitehouse in the same period. The information is taken from column 11 of my spreadsheet at Appendix D. There are 25 instances where the amount of Euros purchased is unknown due to missing FM till rolls. In these instances I have estimated the amount of Euro deliveries by reference to cheque payments made by Mr Whitehouse, converting the amount of payment from Sterling to Euros by taking the average rate used for sales to Mr Whitehouse of the transactions before and after the missing FM till rolls.
- 6.20 There were a further two instances where US Dollars and not Euros had been purchased and I have therefore removed these from my calculations.
- 6.21 By comparing the two columns I assess the amount of Euros delivered to Rugeley Post Office that had not been sold to Mr Whitehouse. This is shown in Appendix H.

- 6.22 The second method I applied was to consider deliveries of Euros to Rugeley Post Office from 31 July 2002 to 13 January 2003 and to compare those amounts with the amount of Euros sold. 31 July 2002 is the date when an earlier audit of Rugeley Post Office was conducted and also the date that the prosecution allege the surplus of Euros began to accumulate and the theft commenced.
- 6.23 I again used information from column two of my spreadsheet in Appendix D to identify the Euros delivered from 31 July 2002. Additionally, I reviewed the COMM 10 printouts and noted the total Euro sales for each week commencing 1 August 2002 to 13 January 2003. As this is recorded in Sterling, I converted this to Euros using the average rate used for sales to Mr Whitehouse, for each particular week. The result can be seen in Appendix I.
- 6.24 In three instances, no COMM 10 printouts were available due to missing FM till rolls. In these instances I assume that the sales of Euros to Mr Whitehouse in that particular week account for all Euro sales by Rugeley Post Office.
- 6.25 There were a further two instances where the COMM 10 printouts were not complete because only a portion of the printout had been photocopied. In both cases, the total sales of foreign currency by Rugeley Post Office can be identified although sales by individual currency denominations cannot. In these cases I assumed that all foreign currency sales in that week were sales of Euros.

#### **Examination of Prosecution Calculation of the Alleged Discrepancy**

- 6.26 The prosecution have alleged that Mr Page has inflated the AM stock figure. A schedule prepared by Mr Patel, called the 'Foreign Currency Discrepancies Schedule' (Appendix G, exhibit MP/6), illustrates how the difference of £282,000 has built up on a weekly basis.
- 6.27 This schedule identifies the following:-
- (a) Cash account week number.
  - (b) Cash account period.
  - (c) Cash on hand declared, i.e. what cash was physically on the premises in sterling.
  - (d) Foreign currency on hand declared, i.e. the sterling equivalent of foreign currency physically on the premises.

- (e) Forde Money Changer figure - this is taken from the FM Comm 10 print. It is the cash held figure which indicates the sterling value of foreign currency held.
- (f) Inflation - this is the difference between c) and d).
- (g) Remarks - additional comments by Mr Patel.

6.28 I have checked the detail / figures entered in columns (a) to (e) and confirm that the figures in MP/6 are correctly transferred from Horizon Cash Accounts (columns (c) and (d) above) and COMM 10 printouts (column (e)). I make the following observations.

6.29 In the twenty-one week period from 7 March 2002 to 24 July 2002, only six differences have been identified between the foreign currency figure declared and what was on the FM Comm 10 print out. These have been extracted and are summarised below.

	<b>Week No</b>	<b>Week ending</b>	<b>Cash on hand declared</b> (£)	<b>Foreign currency declared</b> (£)	<b>FM Comm 10</b> (£)	<b>Inflation</b> (£)
1)	51	13.03.02	145,919.89	6,962.38	6,962.38	1,307.06
2)	01	03.04.02	279,571.16	6,341.77	6,341.77	0.40
3)	10	05.06.02	304,899.72	38,175.59	39,689.27	1,513.68
4)	13	26.06.02	211,286.54	85,179.00	31,800.97	53,378.03
5)	14	03.03.02	412,439.56	36,233.90	41,117.68	(4,833.78)
6)	16	17.07.02	461,032.55	2,138.74	52,032.33	(49,893.59)

6.30 Numbers 1) and 3) have remarks by Mr Patel that the inflation figure matches the revaluation figure. Number 6) has a remark that the revaluation figure (£2,138.74) has been used as the foreign currency in hand, resulting in a large difference. Number 2) is only a 40p difference. These four can therefore be seen to be human error, when inputting the figures onto the Horizon Computer system.

6.31 In week 13 (w/e 26 June 2002) there was an audit carried out at Rugeley PO and the audit team actually completed the office accounts for that week. An explanation as to the inflation is not evident.

- 6.32 An explanation for the difference in week 10 is also not evident.
- 6.33 Schedule MP/6 then shows a further difference of £85,636.65 between the foreign currency declared and FM Comm 10 in week 19, followed by two weeks where the amounts matched and there was a nil difference.
- 6.34 From week 22 onwards, the difference of £282,000 starts to build. It starts with an initial difference of £188,000 in week 22, followed by a series of smaller increases of £94,000 to a total of £282,000 by week 41.
- 6.35 Within the period, Schedule MP/6 shows that Margaret Pearce had signed the Horizon Final Cash Account, verifying the amount disclosed, on six occasions.
- 6.36 These six instances are summarised as follows:-

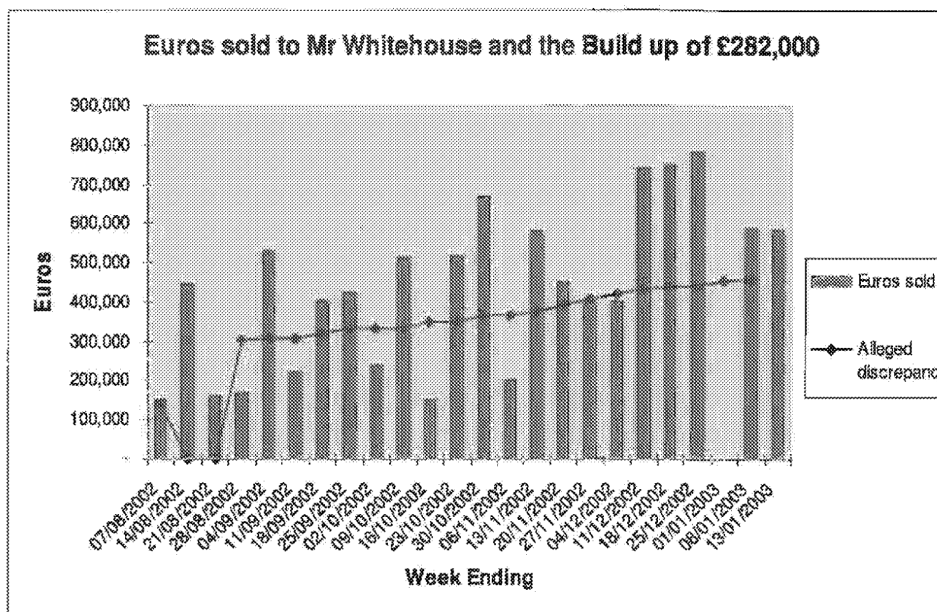
	Week No	Week ending	Cash on hand declared (£)	Foreign currency declared (£)	FM Comm 10 (£)	Inflation (£)
1)	23	04.09.02	120,232.12	196,292.24	7,292.24	189,000
2)	25	18.09.02	82,139.54	299,754.23	102,754.23	197,000
3)	26	25.09.02	106,212.68	297,790.91	100,790.91	197,000
4)	29	16.10.02	91,595.99	319,841.32	104,841.32	215,000
5)	32	06.11.02	111,374.55	373,929.97	148,929.97	225,000
6)	38	18.12.02	78,177.38	370,591.17	100,591.17	270,000

#### Timing Differences

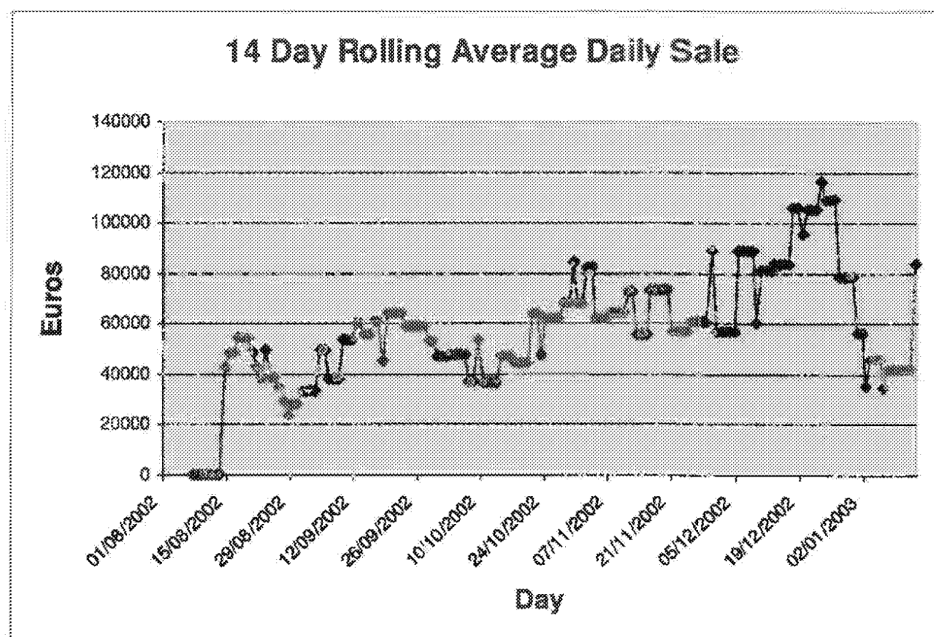
- 6.37 I note that there is no automatic link between FM and Horizon systems. Data transferred from FM to Horizon therefore has to be manually input. Clearly this gives increased capacity for human error and for incorrect totals to be entered on the Horizon system.
- 6.38 I note also that the data on Horizon is a "snap shot" of the position at the end of the cash account week. It includes a physical count of all the currency in the branch. Whereas the FM figure is the balance arrived at after taking into account the transactions in the week.



- 6.39 Accordingly, it is possible that timing differences could arise between the FM and Horizon systems that might explain the discrepancy or "inflation" in MP/6 (Appendix G of this report). I refer in particular to instances where Mr Whitehouse purchased a large quantity of Euros before the end of the cash account week, so the sale was entered in FM, but where Mr Whitehouse did not physically collect the cash until the beginning of the following cash account week. In these instances the Horizon figure would differ from FM by the amount of Euros sold to Mr Whitehouse and awaiting collection.
- 6.40 I understand from Mr Page that Mr Whitehouse would regularly collect the Euros a day or so after Mr Page had put the entry through FM.
- 6.41 As noted above, the amount of the discrepancy or "inflation" on MP/6 increases on 14 August 2002 from nil to £188,000 on 28 August 2002 and £282,000 on 8 January 2003. Given the timing difference explained above, one explanation for this increasing figure is that the weekly total of Euros sold to Mr Whitehouse increased over this period as shown by the graph below. This graph also plots the increasing amount of the alleged discrepancy for comparison.



- 6.42 The 14-day rolling average of daily Euros purchased by Mr Whitehouse also shows an increasing trend over this period. The dip at the end of December and the beginning of January is caused by the absence of sales around the Christmas and New Year periods.



- 6.43 In conclusion, the discrepancy or "inflation" of £282,000 could have been caused by timing differences between the date that sales to Mr Whitehouse were recorded on FM and the date Mr Whitehouse physically collected the cash.

**Did the £282,000 exist as a surplus of cash?**

- 6.44 Results in Appendix H show that a comparison of the Euros delivered in the period 8 March 2002 to 13 January 2003 to those sold to Mr Whitehouse, leaves a surplus of 941,717 Euros. The surplus will consist of Euro sales to customers other than Mr Whitehouse and may also include the £160,000 of foreign currency that was removed by the Post Office on 31 July 2002. This period covers 259 trading days after accounting for bank holidays which indicates that on average 2,635 Euros per day that were sold to customers other than Mr Whitehouse (after deducting the £160,000 converted at a rate of €1.62 = €259,200 ( $€941,717 - €259,200 = €682,517 / 259 \text{ days} = €2,635$ )).

- 6.45 A detailed review of the FM till roles for 19 trading days from 19 December 2002 and 13 January 2003 shows that in this period an average 3,002 Euros were sold to customers other than Mr Whitehouse. On the basis that the Christmas and New Year trading period is representative of the general level of Euro sales then sales of around 3,000 Euros per week would appear to be the normal level of trade excluding sales to Mr Whitehouse.
- 6.46 The second set of results in Appendix I shows that in the period from 31 July 2002 to 13 January 2003 there was a small excess of Euros sold via the FM, compared to the amount delivered to Rugeley Post Office. This deficit is 144,476 Euros (Euros delivered = (€10,867,600) - Euros sold (€11,012,076) = (€144,476)).
- 6.47 The deficit may be explained by an opening stock of Euros at 31 July 2002 (when my analysis commences) which is why sales exceed deliveries in this period.
- 6.48 In conclusion, both these analyses indicate that a surplus of Euros of approximately €456,840 (£282,000 converted at €1.62) could not physically have been built up in the 'AM' stock or elsewhere. All the Euros delivered to Rugeley Post Office were entered into FM and my analysis of sales shows that they match, or exceed, the deliveries.

## 7 Expert's Declaration

7.1 I declare that:

- I understand that my duty in 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 and will continue to comply with my duty.
- I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.
- 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.
- I have indicated the sources of all information I have used. I enclose as Appendix B to my report a schedule of documents on which I have relied.
- 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). In carrying out my instructions I have been assisted by colleagues in PKF. It would not have been practical or efficient to carry out all the detailed work involved without assistance. I have reviewed and discussed with them the work that they have performed under my direction in accordance with the quality control standards imposed by my firm. For the purposes of this report, I refer to all of PKF's work as if performed by myself.
- I will notify those instructing me immediately and confirm in writing if for any reason my existing report requires any correction or qualification.

7.2 I understand that:

- my report, subject to any corrections before swearing as to its correctness, will form the evidence to be given under oath or affirmation;
- I may be cross-examined on my report by a cross-examiner assisted by an expert;
- 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.

7.3 I confirm that I have not entered into any arrangement whereby the amount or payment of my fees is in any way dependent on the outcome of the case.

..... Date: .....

David Liddell

Forensic Accounting Partner

PKF