

Witness Name: Neil William McCausland

Statement No.: WITN10290100

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POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF NEIL WILLIAM MCCAUSLAND

I, NEIL WILLIAM MCCAUSLAND, will say as follows:

INTRODUCTION

1. I was appointed as Senior Independent Director of Post Office Limited (“POL”) and Non-Executive Director, (“NED”) effective from 22 September 2011 to 30 September 2015. I held the position of interim Chairman of the Board between 1 August 2015- 30 September 2015.
2. This witness statement has been prepared in response to a request from the Post Office Horizon IT Inquiry (the “Inquiry”) pursuant to Rule 9 of the Inquiry Rules 2006, dated 15 March 2024 (the “Rule 9 Request”). In this witness statement, I address each of the questions set out in the Rule 9 Request. I have been assisted by my legal representatives, Kingsley Napley LLP, in the

preparation of this witness statement.

BACKGROUND

3. Prior to joining POL, I was employed at Marks and Spencer PLC (“M&S”) between 1982-1998. I progressed through various leadership roles within M&S and in 1999, left to take on a role as Managing Director of C&A, a position I held until 2001. C&A was heavily loss making and needed radical transformation. Thereafter, between 2001-2002, I took on the role of CEO of NAAFI (“Navy, Army and Air Force Institute”) a Government-owned business consisting of shops and pubs for the British Military, which, at the time of my engagement, was making substantial losses. I developed a strategy which restructured the business and brought it back to profit. I subsequently became a non-executive Chairman of a number of retail companies in the early 2000s which included Snow and Rock, Kurt Geiger, TJ Hughes, Dwell and Floors- 2- Go. I was offered these positions due to my specialist expertise in turning around loss-making companies and/or developing retail commercial strategy for fast-growing companies.

4. I confirm I have no higher education qualifications other than a degree in Biology I obtained in 1981 from the University of Sheffield.

5. I confirm I do not have any particular expertise or qualifications in accountancy, Information Technology (“IT”) or law.

6. I was appointed as a non-executive director (“NED”) and Senior Independent

Director of POL in September 2011. I retained these positions until September 2015 when I left POL. At the outset of my appointment, I was the sole NED in addition to Alice Perkins, who was appointed as Chair of the Board in July 2011 (minutes of the meeting of the Board of Directors, 22 September 2011 (POL00030365). Shortly thereafter, the following NEDs were appointed:

- Virginia Holmes, April 2012 (as reflected in the minutes of the meeting of the Board of Directors, 15 March 2022 (UKGI00016088);
- Alasdair Marnoch, May 2012 (minutes of the meeting of the Board of Directors, 23 May 2012 (POL00021507);
- Tim Franklin, September 2012 (minutes of the meeting of the Board of Directors, 21 November 2012 (POL00027601);
- Susannah Storey, April 2012 (minutes of the meeting of the Board of Directors, 18 April 2012 (UKGI00011499).

7. At the outset of my appointment in 2011, I was heavily involved in the setup of POL to become an independent company as it was in the process of separating from the Royal Mail Group (“RMG”). Thereafter, as a NED, my role was to assist with the development of POL’s strategy, monitoring performance and holding the Executive to account. The Post Office was heavily loss-making and needed huge transformation to develop a sustainable future. In addition, my responsibilities included ensuring that the risk management system was robust and the company accounts were scrutinised. In my role as the Senior Independent Director, I was a sounding board for the Chair, Alice Perkins and an intermediary for other NEDs. I was also a conduit for the shareholders in accessing either the Chair or the Executive team.

8. I held the position of interim Chairman of the Board between 1 August 2015- 30 September 2015. I address this in further detail in my response to question 59.

9. I have continued to be a NED/Chairman since leaving POL. Over the last decade I have migrated more towards roles in healthcare rather than retail as I have found it more rewarding. The companies I have worked for since leaving POL include:

- Skin Clinics: 2006 to 2019 (SKN Holdings Ltd);
- Joules: 2013 to 2018 (Joules Investment Holdings Ltd);
- Create Fertility: 2013 to 2021 (Create Health Global Ltd);
- Karen Millen: 2015 to 2019 (Karen Millen Holdings Ltd);
- Westerleigh: 2019 to present (Westerleigh TopCo Ltd);
- PHL: 2022 to present (PHL Group HoldCo Ltd).

POL CORPORATE GOVERNANCE AND MY ROLE AS A NON-EXECUTIVE DIRECTOR

10. I was headhunted by a recruitment firm for the position of NED of POL. I believe I was interviewed for the position by Donald Brydon, who was the Chair of the RMG at the time. I also believe that I was interviewed by the Head of the Shareholder Executive (“ShEx”) and Alice Perkins.

11. I was recruited primarily to assist POL modernise its business and to help it become more financially sustainable by reducing their annual loss and developing an independent infrastructure to allow it to operate as a

standalone company separate to the RMG. At the time that I joined, POL was in a state of flux with its imminent separation from the RMG. The scale of the transformation needed was huge which made it a very challenging role.

12. Although my recollection of the interview process has waned over time, I am confident that at no stage during any of the recruitment interviews or subsequent induction meetings or briefings was there any mention of Horizon as an issue.

13. When I began my tenure as NED, I was heavily involved in overseeing the setting up of POL as an independent business. After 2012, when POL became an independent company, the majority of my time as a NED was spent overseeing commercial projects, including the development of new products such as Mails, Government services, Payment services, Financial services and Telephony, in addition to also reconfiguring distribution channels, slimming down the Crown Network, reconfiguring the main and local Post Offices through Network Transformation and growing the digital capability of POL. In addition to this, I oversaw the slimming down of POL's cost base and helped develop a refreshed strategic plan to include obtaining associated Government funding and preparing for the possibility of mutualisation. All of these projects were vital for POL to modernise and help it become financially stable by reducing its annual loss and developing an independent infrastructure from the RMG. It was a difficult time to join POL, given the state of flux and the great many changes that needed to be made. I believe I was recruited to the Board given my particular skillset in retail and in commercial transformation.

All of the POL Directors (NED and Executive members) shared the usual directorial responsibilities, which included compliance with the Companies Act 2006 i.e. acting within our powers, promoting the success of POL, exercising independent judgement, reasonable care, skill and diligence.

14. The Board was responsible for providing independent oversight and constructive challenge to all actions undertaken by POL, this included prosecutions. Criminal and civil litigation, either by or against POL, would be considered at Board meetings. There was a standing Significant Litigation Report which would be provided in the Board papers in advance of each meeting and the Board would be updated verbally by either Paula Vennells, Chief Executive Officer, ("CEO") or General Counsel. There was not a focus on prosecutions by the Board until after the publication of the Second Sight Interim Report. Following this it was agreed that previous prosecutions would be reviewed by POL's external legal team and new prosecutions would be paused. Towards the end of 2013, the Board and the Audit Risk & Compliance Committee ("ARC") were asked to review POL's Prosecution Policy. I have provided further detail in relation to this later in my statement.

15. I have been asked to comment on the Board's oversight of POL's IT. The Board was aware that POL's IT systems were underinvested. Many were approaching end of life/end of contract, were expensive to run and were not particularly user friendly and so time was spent reviewing options to improve the IT architecture and functionality. Whilst this was not a standing item on the Board agenda, it would be discussed on a planned review basis – as was

the case for many topics. This was led by the Chief Information Officer and a lot of work was done to develop a new IT strategy based on splitting the functionality into four “towers” under a service integrator (an application and infrastructure tower, a data centre tower, an end user computing tower and a network tower). This was designed to give a better, cheaper, more robust IT architecture to cope with the future shape of the Post Office. The Horizon contract with Fujitsu ended in 2015, and was expensive costing around £65 million per year. But in addition, there were 60 other small suppliers. This new strategy would result in a more balanced and less risky supplier network.

16. As a part of this, Horizon was planned to be replaced/renewed, (although that was planned for after I left the Post Office).

17. As to the Board’s oversight of accounting systems, these formed part of any audit which would check controls. The audit plan and report were primarily considered by the ARC Committee and were subsequently reported to the Board. These audits were undertaken by the RMG/POL Internal Audit department and also by the external auditors Ernst and Young. I cannot recall how frequently these audits would take place. I was a member of the ARC committee from its inception. The first ARC meeting took place on 23 May 2012 (POL00021431). Alasdair Marnoch was the Chair of the ARC committee due to his background in accountancy. Tim Franklin also became a member due to his background in banking and finance. Susannah Storey was also a member for a period of time. Whilst I was an active member of the ARC committee, I deferred to Alasdair Marnoch and Tim Franklin’s expertise in accountancy. In relation to any ARC discussions regarding audits of the

accountancy processes, these would involve the auditors Ernst and Young whose role would be to check the integrity of those systems and feedback to POL in audit meetings and/or the RMG/POL internal audit team. It became apparent from Ernst and Young's audit report in 2011 that there were some minor controls that needed improving – which was acted upon. I recall being assured by Ernst and Young's Audit Partner (Angus Grant), the CFO (Chris Day), the COO (Mike Young) and the Chief Information Officer (Lesley Sewell), that the integrity of the accounting systems was sound, albeit slow and clunky. Given that I am not an expert in either IT or accountancy, I deferred to their expertise on these issues.

18. As to POL's compliance with the Equality Act 2010, on a scheduled basis throughout the financial year, the Human Resources Director of POL would attend meetings to address the Board and outline POL's compliance with all HR legislation – including the Equality Act 2010. To the best of my recollection, I cannot recall any concerns being raised regarding POL acting in contravention of the Equality Act 2010 during my time as NED.
19. I have been asked to summarise the corporate structure of POL and RMG when I joined as a NED. When I joined POL in September 2011, it formed part of the RMG. The first six months of my appointment were focused on setting POL up as an independent business separate from the RMG. The task was not straightforward as the RMG and POL were sometimes in conflict in negotiating the separation of the two companies and I was heavily involved in overseeing the creation of a Distribution Agreement and a Master Services Agreement, which set the future commercial structure between the two

companies. This posed a unique set of challenges to myself and Alice Perkins. During the first six months POL was not independent and was still part of the RMG. Thereafter, there was a transitional arrangement allowing POL to continue to use some of RMG's infrastructure until it built its own.

20. I have been asked to summarise how the POL and RMG Boards operated when I became a Director.

21. Due to the planned separation of the companies, POL's Board started operating almost immediately after I joined, even though it did not have legal authority until April 2012. Therefore, I did not have any involvement with the RMG Board and have therefore only provided details in respect of the POL Board. Accordingly, references in this witness statement to "the Board" refer to POL's Board exclusively. The Board met at least eight times a year. There would be additional Board meetings as necessary to discuss any particularly time critical issues. These were usually held by telephone conference. In addition to Board meetings, we would also have at least one Strategy Day every financial year, the purpose of which was less about monitoring performance and more about setting and refining the future strategic direction of the Company. All Board meetings were minuted as well as the Strategy Day.

22. Alice Perkins was a strong and hardworking Chair, who set a clear agenda and kept meetings running to time. To the best of my recollection, she ensured that everyone around the table had their say, but ensured that no one particular person was overly dominant. I recall there was always a

healthy amount of challenge and debate amongst members of the Board.

23. The Board agenda would be determined by Alice Perkins as Chair, in consultation with the Company Secretary, Alwen Lyons and Paula Vennells.
24. There was a planned rolling sequence of topics which were on the agenda for the Board to discuss, in addition to the standing regular items. This rolling sequence encompassed all of the major transformation projects (the products we sold and the distribution channels and also the main infrastructure items such as IT and the cash supply chain). For all these topics, the relevant member of Paula Vennells' Senior Leadership Team would write a report for the Board pack and attend in person to discuss it. As such the Board had regular meetings with the members of the Senior Leadership Team.
25. The minutes of the Board meetings set out who attended each Board meeting. Board meetings were regularly attended by all six NEDs, i.e. Alice Perkins, myself, Virginia Holmes, Alistair Marnoch, Tim Franklin, Susannah Storey in her capacity as ShEx, followed by her replacement, Richard Callard from April 2014. Also regularly in attendance would be the two Executive Directors - the CEO, Paula Vennells and the Chief Financial Officer, (originally Chris Day until November 2014, followed by his replacement Alisdair Cameron in January 2015) and the Company Secretary, Alwen Lyons.
26. The frequency by which each subcommittee would meet would be spelt out in their terms of reference. For the subcommittees of which I was a member,

the ARC Committee would meet at least three times a year, the Nominations subcommittee at least twice a year and the Remuneration subcommittee at least three times a year. Whilst strictly not a subcommittee, the Post Office Advisory Council ("POAC") would meet at least three times a year. In reality, as can be seen in the annual report, there were more subcommittee meetings than the minimum requirement. For example, in 2013-2014, I attended eight Board meetings, five additional Board meetings, six ARC meetings, six Nominations subcommittee meetings, and five Remuneration subcommittee meetings.

The Remuneration Subcommittee

27. I was Chair of the Remuneration subcommittee and the other members were Alice Perkins and Virginia Holmes. The Remuneration subcommittee was responsible for making recommendations to ShEx on the remuneration packages of the Executive Directors. This would involve reviewing policy and packages for each member of the Senior Leadership Team who reported to the CEO. We used an external consultancy firm, New Bridge Street, to benchmark the POL remuneration packages against external organisations which assisted us with setting remuneration levels. No material change could be made to any of the Executive Director's remuneration packages without the consent of ShEx. As Chair of the Remuneration subcommittee, I did the majority of the work in preparing the materials for these meetings and leading the discussions.

The Nominations Subcommittee

28. The Nominations subcommittee was chaired by Alice Perkins. Virginia Holmes and I were also members. The Nominations subcommittee was responsible for reviewing the structure and composition of the Board and making recommendations for change where necessary. The Nominations subcommittee was also responsible for managing the process for both the recruitment and replacement of Directors. In addition it was responsible for overseeing the process of Board evaluation, where the performance of the Board and its subcommittees was carried out.

The Audit, Risk and Compliance Committee ("ARC")

29. As set out at paragraph 18, ARC was chaired by Alasdair Marnoch with myself, Susannah Storey and Tim Franklin also members. Alice Perkins was a member initially until Tim Franklin was recruited. ARC was responsible for reviewing POL's financial reporting which included a review of POL's accounting, accounting policies and internal financial controls. A second key responsibility of ARC was the promotion and development of a risk management framework suited to the complex nature of POL's business. This involved ensuring that the Executive established an effective framework considering POL's risk appetite, the actual risks that were identified and the mitigating factors and then embedding this framework across the organisation. ARC also reviewed the half year trading statement and the full year accounts to assess the validity of assumptions made and the accounting policies. The Terms of Reference for the ARC (version dated November 2013 and approved by the Board on 26 March 2014) are at POL00423344.

The Pensions Subcommittee

30. This was chaired by Virginia Holmes. I was not a member of the Pensions subcommittee and do not have a recollection of the Terms of Reference.

The Financial Services Subcommittee

31. This was chaired by Virginia Holmes. I was not a member of the Financial Services subcommittee and do not have a recollection of the Terms of Reference.

The Sparrow Subcommittee

32. This was chaired by Alice Perkins and members included Alasdair Marnoch (CFO), Richard Callard (ShEx) Paula Vennells (CEO) and Chris Aujard. I was not a member of the Sparrow subcommittee.
33. The Sparrow subcommittee was established in April 2014. The Sparrow subcommittee was set up to keep under review the progress of Project Sparrow and undertake any other oversight function delegated to the Committee by the Board as can be seen in the Project Sparrow Terms of Reference (POL-00025794).

The Post Office Advisory Council ("POAC")

34. In addition to the subcommittees highlighted above, there was also POAC.

Whilst not strictly a subcommittee of the Board, POAC was established to provide a forum for Post Office Stakeholders and other experts to discuss issues of importance that impacted on customers, stakeholders and their communities, as can be seen in the POAC Terms of Reference (POL00228475). I was a member of this committee alongside Tim Franklin who acted as Chairman. The idea behind POAC was to enable the Company to better hear the views of SPMs and customers and to try and improve engagement and workplace culture. I was a member of this committee alongside Tim Franklin who acted as Chairman. POAC was established in 2014 and was set up to help create a pathway to mutualisation, where all the stakeholders – POL employees, SPMs, customers and wider stakeholders-worked collaboratively to improve the company for the good of all.

35. The Board packs of each Board meeting would detail the reports submitted to each meeting. Board meetings would generally run for most of the working day. Prior to each Board meeting, each member would receive a board pack, which would generally consist of well over 100 pages. Software called Board Pad was used to manage the business of the Board. The pack would have a summary report from the CEO on POL's priorities in addition to the monthly management accounts. There were regular reports of the main business priorities. The Board would also be addressed on a regular rotating basis by members of the Senior Leadership Team on an array of projects, examples included:

- Separation of POL from the RMG;

- The Crown Network;
- Network Transformation;
- Direct digital capability;
- Mails;
- Government services;
- Banking and payment services;
- Financial services;
- Telephony;
- Customers and staff;
- IT;
- HR and people;
- Cash supply chain.

36. Board packs would also include reports from various subcommittees that had met in the intervening period. Generally, these would include the minutes from each subcommittee meeting followed by a verbal update from the Chair of said subcommittee. Minutes of previous meetings were also included in the board pack.

37. I have been asked to comment on the level of technical IT expertise of those attending the Board. I am not a technical IT expert, nor am I an expert in accounting. The Board would be addressed by the Chief Information Officer, Lesley Sewell, who would report centrally through the Chief Financial Officer to the Board. I confirm I have never had any training on IT and I'm a relatively low-level user. I am not able to comment on the technical IT expertise of other

members of the Board.

38. I have been asked to comment on how members of the executive management team would report to the Board if they were absent from Board meetings. From my recollection, all members of the executive management team did report on their projects or work streams at the Board meetings. There would be a report from them included in the Board pack. They would also be expected to attend that Board meeting to summarise and answer any questions from the Board.

39. The POL executive management team all reported either to the Chief Executive Officer, ("CEO") Paula Vennells, or the Chief Financial Officer, ("CFO"), Chris Day/Alisdair Cameron. Members of the executive management team would regularly attend Board meetings and report from their own work areas and answer questions from the Board. To the best of my recollection, the majority of the NED's contact with the executive management team was through either the CEO or the CFO, or at Board meetings. However, whilst there was no formal reporting line, there was a fair amount of contact between the executive management team and NEDs between Board meetings. For example, I personally would have had a lot to do with the Human Resources Director in preparing for the Remuneration subcommittee meetings and the Human Resources Director would then also be in attendance for part of those meetings.

40. There was no reporting line from the POL Executive team or POL Board to the RMG after the companies separated in April 2012. Before that time,

Paula Vennells did report to the CEO of the RMG.

41. There was no reporting line from the POL Executive team or POL Board to the Government other than through the ShEx, which would be either Susannah Storey or Richard Callard depending on the time period in question.

42. I have been asked to set out the extent to which I dealt with, or were involved in oversight of the RMG or POL legal department.

43. I did not deal with, or have any involvement in the RMG legal department.

44. In respect of POL's legal department, the only involvement I had was in the review of documentation at Board or ARC meetings via General Counsel. General Counsel would provide the Board with a Significant Litigation Report which would be tabled at each meeting. Whilst I know I would have questioned and or challenged General Counsel on any particular part of their report that caused me concern, I deferred on the whole to their expertise given that I have no particular legal knowledge or expertise.

45. I have been asked to set out the extent to which I dealt with, or were involved in oversight of the RMG or POL's IT departments.

46. I did not deal with, or have any involvement in, the RMG IT department.

47. In respect of POL's IT department, my dealings were via the Chief

Information Officer at Board meetings or Strategy Days.

48. I have no particular skill or expertise in IT and any challenge by me or questioning of the information presented to me by Lesley Sewell would therefore be limited.

49. I have been asked to set out the extent to which I dealt with, or were involved in oversight of the RMG or POL's problem management team.

50. I did not deal with, or have any involvement in the RMG problem management team.

51. In respect of POL, I am unaware of what the 'problem management team' is.

52. Moreover, I did not deal with, or have any involvement in RMG's Management Security and or Investigation department.

53. In respect of POL, I can only assume the Inquiry is referring to the individuals responsible for the investigation in shortages and/or anomalies in the branch accounts. I was not involved in that process. Whilst there may be some reference to anomalies in accounts within Board minutes, these would be addressed directly by either General Counsel or Paula Vennells.

54. I have been asked to set out the extent of my knowledge and/or involvement in the oversight of the investigation and prosecution of SPMs for theft, fraud and false accounting for alleged shortfalls in branch accounts.

55. During my recruitment process, I had no knowledge, whatsoever, with regards to the investigation and prosecution of SPMs for theft, fraud or false accounting and/or for alleged shortfalls in branch accounts. The vast majority of criminal prosecutions against SPMs in relation to theft, fraud and false accounting and/or alleged shortfalls in branch accounts had occurred before I joined POL.

56. In or around May 2012, the issues reported around Horizon increased which were reported to the Board via the CEO and General Counsel. It was at this stage that POL agreed to appoint a forensic accountant to investigate the SPM's complaints (POL00021507). This led to the instruction of Second Sight Support Services Ltd ("Second Sight") and the subsequent Working Group/Mediation Scheme. During this time, as a member of the Board, I received regular updates on Horizon issues. In April 2014, the Board agreed to the formation of the Sparrow subcommittee (of which I was not a member), and so after that time I was less involved in the detail, although the Sparrow subcommittee would report directly to the Board on matters concerning the investigation and prosecution of the SPMs.

57. My involvement regarding the recovery of alleged shortfalls in branch accounts was primarily as a member of ARC, where in particular we discussed the future Prosecutions Policy in late 2013/early 2014 and made recommendations to the Board to "soften" the POL policy.

58. I have been asked to describe any material change to the corporate structure

of POL or the operation of its Board. During my four-year tenure as a NED, the only substantive change to the corporate structure of POL was its formation as an independent company in April 2012. In addition, there were people changes and/or the formation or breaking up of subcommittees. By way of example, there were “people-changes” such as the CFO changing from Chris Day to Alisdair Cameron in January 2015. The creation of a new subcommittee would inevitably affect the operation of the Board, as that subcommittee would usually form a standing agenda item at any Board meeting.

59. As to how the Government maintained oversight of POL during my time as Director, throughout my tenure as a NED, once POL became an independent company, there was always a ShEx NED on the board of POL. Originally that was Susannah Storey in 2012 and she was subsequently replaced by Richard Callard in 2014. The ShEx NED completed their duties as a company director in the usual way. They maintained oversight of POL’s activities and directly fed back to the head of ShEx and ultimately the Minister. As far as I am aware, Susannah Storey and/or Richard Callard would have had access to any material they required. They were also permitted to be on any of the sub-committees they wished to join.

60. I had confidence in both Susannah Storey and Richard Callard’s abilities. They were knowledgeable, robust and not afraid of asking difficult questions.

KNOWLEDGE OF THE INTEGRITY OF HORIZON

61. When I commenced my appointment with POL, I had no knowledge of Horizon at all – much less problems or complaints with it. Over time, I became aware that Horizon was clunky and not particularly user friendly and that some controls needed improving. After the Second Sight interim report in 2013, I became aware that the “broader Horizon system” needed improvement – particularly the training and support, although from the information that was made available to me I still believed that the software was sound and not responsible for the losses reported by the SPMs.

62. Initially I was unaware that Fujitsu employees had the ability to remotely access and alter SPM’s branch accounts. After the Second Sight review I became aware of the allegations that this could happen, but was reassured that in the rare instances where this did happen, it would be visible and transparent to the SPMs. This issue was raised further when I read the Deloitte Board briefing dated 4 June 2014 (POL00130618). I have addressed this in more detail later in my statement.

63. At no stage did I receive any training with regards to the Horizon system.

64. The Horizon system was discussed very regularly at Board meetings. The executive management team, particularly the General Counsel and the CEO, but also the CFO and CIO repeatedly reassured the Board that the Horizon system was fit for purpose. I and the rest of the NEDs asked questions regularly probing the soundness of Horizon and we commissioned further work to be undertaken in respect of this i.e. the instruction of Deloitte in April 2014. After the Second Sight Interim report, it became clear that the broader

definition of the Horizon system showed shortcomings particularly in training and support which I spent time learning about through the Business Support Programme, though I always believed that the software was fundamentally sound.

65. I was not involved in the RMG Board and so cannot comment on what discussions they had regarding the reliability of the Horizon system.

INITIAL PERIOD OF APPOINTMENT AT POL

66. I was appointed by the Board as Senior Independent Director of POL, effective from 22 September 2011 as set out in the minutes of the Board of Directors (POL00030365). The terms of my appointment were confirmed in writing on 27 September 2011, which I accepted on 3 October 2011 (UKGI00017932).

67. As reflected in the minutes of the Board meeting dated 22 September 2011 (POL00030365), at the outset of my appointment, POL remained part of the RMG with changes to the RMG structure and the POL Board underway. At that time, Paula Vennells was the Managing Director of POL and reported to the Chief Executive Officer of the RMG, Moya Green. That arrangement continued until POL became independent of RMG on 1 April 2012.

68. At the time of my appointment, the Board was comprised of Donald Brydon (Chairman of RMG), Alice Perkins (NED of POL), Les Owen (NED of RMG), Paula Vennells (Managing Director of POL), Chris Day (CFO of POL), Alwen Lyons (Company Secretary for POL) and Jon Milledge (Company Secretary

for RMG). At the conclusion of the meeting of the Board of Directors on 22 September 2011, Donald Brydon resigned as Chairman and Director of the Board and Alice Perkins was approved as Chairman.

69. When POL became independent, Paula Vennells became the CEO of POL and Les Owen retired from the Board on 15 March 2012 as can be seen in the minutes (UKGI00016088). Virginia Holmes and Susannah Storey were appointed as NEDs on 4 and 18 April 2012 respectively (UKGI00011499). Finally, Alasdair Marnoch was appointed as a NED on 23 May 2012 (POL00021431).

70. The ARC held its first subcommittee meeting on 23 May 2012 (POL00021431). The focus of that first meeting related to Ernst & Young's preliminary conclusions on POL's financial position for the financial year end 25 March 2012. The Executives present had all been with POL for some time, albeit as part of RMG, however the NEDs present (Alasdair Marnoch, Alice and myself) were still learning about POL and so were keen to understand the auditor's (Ernst and Young) view of controls.

71. I have been asked to set out my recollection of the 22 September 2011 Board meeting, in particular my recollection of the nature and purpose of my interventions regarding POL's IT, and the nature and extent of my knowledge and involvement with the IT and audit issues arising from the 2010/2011 Ernst and Young Report. The minutes of the Board meeting of 22 September 2011 reflect that I was not formally appointed to the Board on this date as my appointment was subject to final sign off by the Shareholder (POL00030365).

Non-Directors are described as “in attendance” rather than “present” on the front-sheet of the minutes.

72. As I was an observer of this particular Board Meeting, I cannot recall if I received the Board Pack in advance of the meeting or if I was provided with documents on the day. I cannot recall being given access to the Ernst & Young Audit report at that meeting.

73. In response to the Technology Update at POLB11/45 on page 5 of the minutes, I queried if the IT architecture for supporting the Network Transformation was clearly defined. I had been given some briefing on the scale of Network Transformation, but I had no knowledge of the IT implications of it. I also requested that the intellectual property ownership be checked to ensure there was no risk in the Fujitsu contract. The purpose of my asking these questions was to try and improve my knowledge and understanding of POL's IT and get up to speed with the workings of the business quickly. I also wanted confirmation on who owned the intellectual property for Horizon as it was unclear to me from the discussion whether this belonged exclusively to Fujitsu or the RMG. I also queried whether POL required replacement colour-screen pin pads across all Post Office branches as there was a significant price discrepancy between colour-screen pin pads versus those with non-colour screens and I wanted to be clear that we were not over-specifying the pin-pads.

74. I have been asked to describe the extent of my knowledge and involvement with the IT and audit issues arising from the 2010/2011 Ernst and Young

Report. I had no knowledge or involvement with this prior to my appointment as a Senior Independent Director. The Ernst and Young Report and the IT audit were ongoing pieces of work at the time of my appointment to the Board. My recollection is that the existing members of the Board were knowledgeable on both topics and that the projects in relation to the audit issues were nearly complete and so I was listening to those discussions to get up to speed.

75. I cannot recall the Board's discussions regarding the implementation of SAS70 audits in any detail (see the IT Audit Update (POL00029438). I have refreshed my memory from the minutes from 22 September 2011 (POL00030365) and I recall there was an intention to move to SAS70 by the end of 2012, however, I do not recall having any particular involvement or oversight of these issues and would not have contributed to this debate. This is because this particular project was nearly complete and my focus instead would have been on defining the new relationship between POL, the RMG and the Government which included (but was not limited to) the drafting of articles of association for POL and the creation of a distribution agreement between POL and the RMG.

76. I have been asked to set out my recollection of the 10 November 2011 Board meeting, in particular the purpose of my intervention relating to POL's dealing with Fujitsu. Unfortunately my recollection of this meeting is limited due to the lapse of time. I therefore defer to the contents of the minutes produced at POL00021502. Having reviewed those minutes, I believe that the pin pads I had questioned at the Board Meeting of 22 September 2011 had subsequently been ordered and signed off by the RMG Investment Committee. I had two

concerns regarding this. First, from a process/governance point of view, I wanted decisions of this nature to be signed off by the POL Board going forward, in addition to RMG, given its imminent separation from the RMG and the “transitional” six months. Also, I was concerned that we were potentially over-specifying the product, as we were buying expensive colour screen pin pads to put everywhere and I questioned whether smaller post offices would be ok with the much cheaper black and white pin-pads. I was also questioning if the 17% margin seemed potentially high given that this was bulk procurement of a standard product. So, my interventions were to try to ensure that POL adhered to a comprehensive procurement process which achieved best value for money, and for the contract with Fujitsu in respect of these pin-pads to be revisited to see if there was scope for reducing the costs to the business. I don't recall issues of this type being repeated during my tenure on the Board.

77. I have been asked to set out my recollection of the 12 January 2012 POL Board meeting, in particular the background to the discussion recorded at POLB12/03(c) within minutes POL00021503. Again, due to the lapse of time, I have no independent recollection of this meeting. For the same reason, I have no independent recollection of the discussion recorded at POLB12/06. From reading the minutes, I think this discussion was about the clarity of delegated authorities from ShEx vs the decisions that ShEx would need to approve and also the subcommittees of the Board that were proposed to be formed. I do not remember any discussion about the responsibilities for POL's legal department in this meeting.

78. I have been asked to comment on the nature and extent of my knowledge of the claims intimated by Shoosmiths/ Access Legal at this time. To the best of my recollection, I had not been provided with the letter of claim from Shoosmiths dated 23 August 2011 (POL00046944) prior to receiving it as part of the disclosure provided by the Inquiry in relation to my Rule 9 request. I note that the date of this document pre-dates my appointment to the Board. I do not recall (and the Board Meeting minutes reflect) that the Board were provided with any information and/or were involved in any discussions regarding any claims intimated by Shoosmiths/Access Legal prior to the Board Meeting of 12 January 2012 (POL00021503).

79. In preparation for that Board Meeting, the Board were provided with a Significant Litigation Report authored by Susan Crichton, dated January 2012 (POL00095595). The Significant Litigation Report informed the Board that POL had received four letters before action from a firm acting for former SPMs who were dismissed when discrepancies between their branch accounts and cash positions were discovered. We were advised that two of the four claimants had previously pleaded guilty to false accounting in criminal prosecutions brought by POL and that each SPM alleged wrongful termination of contract *“based on alleged failings in POL’s processes and computer system”*. The Board were advised that the *“considered legal view is that the Claimants are unlikely to succeed”*. I do not recall anyone expressing a contrary view to this but I am confident that members of the Board would have questioned Susan Crichton as to the basis for her conclusion that the legal claims were weak. The content of the Significant Litigation Report remained

largely unchanged by April 2012.

80. I note that in the meeting minutes of 12 January 2012, (POL00021503), Susan Crichton informed the Board that the SPMs were challenging the integrity of the Horizon system. She did not provide any further detail as to the nature of those challenges beyond confirming that the Horizon system had been audited by RMG Internal Audit with those reports being reviewed by Deloitte. She informed the Board that the audit report was “*very positive*” which I was reassured by. Susan Crichton confirmed she would seek permission from POL’s external legal team to disclose Deloitte’s audit report to the Board. Whilst I do not believe that I had seen the audit report at this stage, I was not overly concerned as I had been assured by Susan Crichton that RMG’s internal audit had been reviewed by a reputable external provider (Deloitte) who had not identified any issues.

81. I recall that at the majority of future Board Meetings the Board would be provided with a Significant Litigation Report which became a standing document in the Board Pack. There would be regular discussions about Horizon which led to further reviews of the system (addressed in more detail below). In circumstances where the Board were repeatedly assured by Paula Vennells, Lesley Sewell, Susan Crichton, Fujitsu and via various audits (internal and external) that Horizon was robust and not responsible for the discrepancies in accounting reported by the SPMs, no “red flags” presented themselves to me during the time period in question.

82. I have been asked to explain why Susan Crichton sought to “*clear the audit*

report with the external lawyers". From reading the minutes, I believe Susan Crichton is referring either to the RMG internal audit report or to the Deloitte Report which reviewed the internal audit. I do not know what Susan Crichton meant by her comment.

83. I have been asked to comment on to what extent I or other members of the Board challenged the positions of senior managers as to the strength of the legal claims. As set out above, I have no independent recollection of the discussions recorded in the Board Meeting of 12 January 2012 (POL00021503). I note from those minutes that in relation to the Significant Litigation Report, Les Owen sought assurance that there was no substance to the claims brought by the SPMs and the Board were assured that Horizon had been audited internally and the result reviewed by Deloitte, with positive results. In support of this claim, the Board were also advised that the business had been successful in every criminal prosecution it had brought which relied on evidence taken from Horizon. I found this reassuring in terms of what we were being told about the integrity of the system.

84. Whilst I cannot recall specifically challenging Susan Crichton at this meeting, I believe the Board must have probed her statements as to the integrity of Horizon, as I expect this triggered her offer to explore disclosing the audit report to the Board.

85. At the Board Meeting of 15 March 2012 (UKGI00016088) at POLB12/41(c), we were advised that Alice Perkins and Alwen Lyons had met with James Arbuthnot MP, at his request, to discuss the SPMs' concerns over Horizon.

The Board were advised that a further independent review of Horizon may be required.

86. I note within the Board Meeting Minutes dated 23 May 2012 (POL00021507) at POLB12/69, there is reference to Paula Vennells' update to the Board following her and Alice Perkins' meeting with James Arbuthnot MP and Oliver Letwin MP. I confirm that at no stage during that update was the Board informed of the SPMs' concerns that their accounts on Horizon could be remotely accessed. It was agreed by the Board that given the SPMs' concerns, a further independent investigation should be undertaken by a Forensic Accountant. This is what led to the instruction of Second Sight, addressed in more detail below.

87. Whilst I am confident that myself and members of the Board questioned and challenged the findings being reported by Paula Vennells, Susan Crichton, Chris Day, Lesley Sewell and others, we were repeatedly assured that Horizon was not responsible for the losses reported by the SPMs; a position that was corroborated by a number of internal and external audits. Without any particular expertise in accountancy or IT, my probing of those conclusions would inevitably be more limited than those with the specialist expertise instructed to undertake the audits. I did not disregard the SPMs' complaints as unimportant, but I was not presented with any cogent evidence that led me to question the veracity of what was being reported at Board meetings. Moreover, as part of my role as a Senior Independent Director of POL, I would regularly visit Post Office branches, sometimes unannounced, to discuss various issues with SPMs. Whilst it's right to say that the SPM I spoke to would complain

about the functionality of Horizon (describing it as clunky and not user-friendly)
I cannot recall a single SPM I spoke to who raised any concerns about the integrity of Horizon being responsible for causing losses.

88. I have been asked why Les Owen resigned as a NED. Les Owen resigned from the Board effective from 15 March 2012. He had held his position on the Board on behalf of the RMG. He had remained on the Board to assist POL with its transition in becoming independent from RMG. Les Owen resigned at the final Board meeting prior to the legal separation of the two entities. As far as I am aware, he remained on RMG's Board for at least twelve months thereafter. He could not have remained on POL's Board during this period as it would have presented a conflict of interest.

89. I have been asked to consider page 91 of UKGI00011499 and set out the nature and extent of my knowledge (or the Board's oversight of) the Assurance Review. In March 2012, RMG's Internal Audit and Risk Management department undertook a review of the robustness of Horizon. I do not know specifically who requested this review, but I am confident that it was welcomed by both the RMG Board and the newly formed POL Board as we all wanted reassurance that Horizon was not to blame for the discrepancies reported by the SPMs. I was provided with the Assurance Review as part of the Board Pack for the Board Meeting of 18 April 2012 (UKGI00011499). Whilst that review identified the need for improvements to Horizon, it did not indicate that Horizon was in any way responsible for the discrepancies reported by the SPMs.

90. I have been asked to describe the discussion recorded at POLB12/60 of the Board Meeting Minutes dated 23 May 2012 (POL00021507). I have no independent recollection of this discussion and I therefore defer to the content of the minutes. I concur with Susannah Storey's summary of the role of the ShEx and it reflects the responsibilities I've outlined in paragraphs 59-60 of my statement. I don't recall any conflicts of interests arising beyond discussions regarding funding. In that scenario, the Board would request that the ShEx member recuse themselves from the Board meeting so that this could be discussed privately.

THE INSTRUCTION OF SECOND SIGHT

91. I have been asked to describe my and the Board's key priorities from June 2012 to May 2013. At the outset of this period, POL had very recently separated from the RMG which resulted in a number of changes to personnel on the Board (see my response to question 5). The NEDs were therefore learning how to work effectively with one another and the Executive.

92. The key priorities for the Board during this period can be summarised as follows:

- Strategy and Business Transformation Change Projects: The Government had agreed to fund a £1.3 billion transformation programme, which allowed POL to transform the network by modernising and growing the services offered by POL, whilst maintaining the size of its branch network. This included reviewing and improving all the products sold by the Post Office -

Banking, Postal, Government services, Telecoms and Energy. The rationale behind this transformation project was to enable POL to significantly reduce its reliance on the annual Government subsidy by 2015 and create a sustainable future. As such, there were many sub-projects that were ongoing during this period reviewing not only what POL sold, but how those services were sold, for example Network Transformation and the Crown Offices. Efficiency and cost control remained a big priority with projects such as IT transformation and the cash supply chain. Given the size of this overarching Business transformation programme, the individual projects were regularly discussed at Board Meetings and incurred considerable time and effort.

- At the beginning of 2013, it became clear that the overall Transformation programme was over-ambitious in places and lacking ambition in others. This led to a revision of the strategy, for example in relation to Mails we opted for a greater focus on parcels and less emphasis on letters.
- Governance: Improving POL's Governance structures was key so that the necessary structures were in place to enable POL to operate as an effective independent company (within the ownership of ShEx) and to lay the groundwork for POL to potentially become a mutual in the future. The subcommittees of the Board were being formed during this period, such as the ARC, Remuneration, Nominations and Pensions subcommittees and then later the Financial Services and Sparrow subcommittees.

- Finance/ Performance: Improving the financial performance of POL. The NEDs worked closely with members of the Executive and the Senior Leadership Team to improve POL's output and profitability. There was a focus on getting faster traction and delivering results.
- People: The Board were keen to focus on POL's people and workplace culture. The level of performance for staff members within POL required improvement and so work was undertaken to try and improve performance via training, coaching and performance management. Time was also spent in trying to improve the culture of POL itself by bridging the gap between Head Office and the SPMs. The majority of SPMs were not happy with the Post Office's communication, strategy or performance. In the same way that the Post Office was losing more money each year, many SPMs were also not making money from the Post Office business and had seen a decline in both revenue and footfall (which was important as it drove their retail trade).

93. The NEDs divided the work between us, playing to our own strengths and specialist skills wherever possible. My personal priorities for POL were focussed on the transformation issues and eradicating the losses in the Crown Network, Network Transformation, Digital transformation, the Mails project, Government Services and reducing POL's cost base, or making it variable with revenue rather than being fixed. I naturally gravitated towards these priorities given my commercial background in retail. As such, a lot of my day-to-day work involved working with Kevin Gilliland (Network and Sales Director) and Martin Moran (Commercial Director).

94. In addition I was focussed on establishing the Remuneration subcommittee, developing the framework for Executive remuneration and worked a lot with Fay Healey (who, at the time, was the Interim Head of Human Resources). I also worked alongside Paula Vennells and Chris Day in relation to all these projects.

95. I have been asked to describe the nature and extent of my involvement with POL's initial meetings with MPs concerning the Horizon IT project. I did not have any meetings or discussions with any MPs, including Lord Arbuthnot MP, concerning Horizon or the concerns raised by SPMs at any stage. To the best of my knowledge and recollection, these meetings were attended by Paula Vennells and Alice Perkins, sometimes with support from Alwen Lyons. They would report back to the Board.

96. Between June 2012 – May 2013, I was aware from Significant Litigation Reports brought to the Board meetings, that claims brought by SPMs had been intimated by Shoosmiths/Access legal. I was not provided with a copy of the correspondence itself and so was unaware at this point in time that the possibility of remote access had been raised (POL00046944). This correspondence was not shared with the Board by Susan Crichton, Paula Vennells or others directly involved with the JFSA.

97. I was aware that Lord Arbuthnot MP had concerns about the integrity of Horizon following his discussions with members of the JFSA and knew that Paula Vennells had met with him on a number of occasions from May 2012

onwards.

98. I was not involved in the decision to instruct a forensic accountant to review Horizon. During the Board Meeting of 23 May 2012, Paula Vennells and Alice Perkins updated the Board on their meeting with Lord Arbuthnot MP and Oliver Letwin MP. The meeting was described as a “success” with a further meeting to be arranged with the other MPs who had cases in their constituencies. I cannot now recall the detail of this verbal update. The Board were informed at that time that POL had agreed to use a forensic accountant to investigate the system, (POL00021507).

99. I was not involved in the selection or instruction of Second Sight. My recollection is that the Board were notified of Second Sight’s instruction either during or shortly after the Board Meeting of 23 May 2012, (POL00021507). I believe the Board were informed of their instruction after Second Sight had already been appointed. I do recall querying whether they had sufficient manpower and sufficient expertise in IT to be competent in undertaking a comprehensive review of Horizon. The Board were assured that they were sufficiently competent and that Susan Crichton had worked with them previously and held them in high regard.

100. I was not involved in any discussions and/or overseeing the drafting of the terms of reference for Second Sight’s investigation. The Board were informed of Second Sight’s appointment but I do not recall the Board seeing their terms of reference. I do not recall challenging this, so I presume I considered it reasonable for Alice Perkins and Paula Vennells (who had attended the

meeting with Lord Arbuthnot MP), together with Susan Crichton to determine the ambit of their appointment.

101. I was not involved in what access Second Sight had to documentation within POL's control.

102. I have been asked to set out the extent to which the Board were kept informed about POL's initial meetings with Lord Arbuthnot MP and the instruction of Second Sight. I have limited my response to the time period of June 2012 – May 2013 as per the rule 9 request.

103. During this period, the Board were aware that Paula Vennells had met with Lord Arbuthnot MP and others regarding the JFSA's concerns regarding Horizon. The Board were notified that POL would instruct an independent forensic accountant to review the integrity of Horizon. The Board agreed this was a sensible and worthwhile exercise (POL00021507).

104. In the Board Meeting of 23 January 2013, Alice Perkins advised the Board of the work being undertaken by Second Sight to investigate the claims made in relation to Horizon and that the SPMs had until the end of February 2013 to submit their complaints (POL00021510). The Board were advised Second Sight would aim to complete their audit by the end of Summer 2013. The Board were aware that James Arbuthnot MP had been involved in discussions with Paula Vennells regarding Second Sight's audit which gave comfort that the scope of the investigation was comprehensive. I have no specialist expertise in either IT, accountancy or law and so I deferred to the judgment of Paula

Vennells, Alice Perkins and Susan Crichton as to the terms of reference for Second Sight's review. Myself and the other NEDs were most interested in finding out if Second Sight had discovered a flaw in Horizon that would explain the discrepancies reported and the SPM's losses. I recall being frustrated at the amount of time it took for Second Sight to provide their Interim report; but the Board were regularly assured that to date, there was no evidence to suggest fault. I had no reason to suspect that I was being provided with anything other than complete and accurate information.

105. I believe the Board provided adequate oversight of the Second Sight investigation based on the information that was provided to us. The Board was repeatedly assured by the Executive (CEO, CFO, CIO and General Counsel) that Horizon was fit for purpose and not responsible for the discrepancies reported by the SPMs. That position was corroborated by RMG's internal audit, which had been reviewed externally by Deloitte. Moreover, there was nothing in the RMG annual accounts or any briefings which led us to believe RMG knew there was an issue with Horizon. We were also assured that Fujitsu had confirmed Horizon was fit for purpose which I regarded as reassuring given that Fujitsu themselves are subject to a rigorous auditing scheme, this was combined with the fact that we were informed that their expert witness had repeatedly given evidence in criminal prosecutions which had resulted in convictions. However, evidence to the contrary came from the JFSA, which was precisely why the Board concurred that an independent forensic accountant should be instructed to review Horizon. Whilst Second Sight's investigation took far longer than expected, the Board meeting minutes reflect that the Board pushed for updates (for example the minutes of the Board

meeting on 21 May 2013 (POL00021513), as we all viewed the outcome as a priority.

THE HELEN ROSE REPORT, INTERIM REPORT AND THE ADVICES BY SIMON CLARKE

106. I was unaware of the existence and/or contents of “the Helen Rose report” (document FUJ00086811) prior to receiving it as part of the disclosure pack provided by the Inquiry in relation to my Rule 9 request. I do not know Helen Rose and have not worked with her.

107. I have been asked to set out my recollection of the Board meeting of 1 July 2013 and in particular, what information I received regarding the Second Sight investigation and what instruction the Board gave to Paula Vennells on how to deal with it. Paula Vennells advised the Board that there had been recent developments with the progress of Second Sight’s review and that their interim report would be presented at a meeting of MPs on 8 July 2013. The Board were advised that Second Sight’s investigation had found no systemic issues with Horizon but had highlighted areas for improvement in support areas such as training. We were also told that for a system as large as Horizon, there would occasionally be anomalies and that two were known of in recent years, the details of which had been passed onto Second Sight to consider as part of their investigation. The minutes of the Board meeting on 1 July 2013 reflect Paula Vennells’ concern about the quality of the report insofar as it “*was not as factual as expected*” (POL00021515). My recollection is that Paula Vennells said the report made very generalised statements and in some places was

inaccurate.

108. The Board encouraged Paula Vennells to challenge Second Sight to ensure changes were made where possible so as to ensure the Interim Report was evidence-based and factual in its content. We also requested that POL's own communications team be ready to combat any inaccuracies included in Second Sight's Interim Report and be in a position where they could respond proactively.

109. The Board's desire at this stage was to review Second Sight's Interim Report and to work constructively with all parties to ensure that any clear actions which arose from Second Sight's audit were implemented.

110. I was unaware of the existence and/or contents of Simon Clarke's advice of 15 July 2013 (document POL00006357) prior to receiving it as part of the disclosure pack provided by the Inquiry in relation to my Rule 9 request.

111. I have been asked what, if any, steps I took to be briefed on the matters discussed at the 16 July 2013 Board meeting and/or what contributions I made to any decisions taken. As noted in the minutes of the Board meeting of 16 July 2013 (POL00027514) I was absent from the meeting. On the rare occasions where I missed a Board meeting, I would have a call with Alice Perkins in advance to share any views that I wanted the Board to consider and follow up with her afterwards.

112. On 4 July 2013, Paula Vennells provided an email update to the Board

regarding Second Sight's investigation (POL00145185). We were notified that Second Sight had not found any evidence of systemic issues with Horizon but had identified some wider failings in the training and support provided to SPMs. We were notified the Interim Report was expected by 5 July 2013 and that it would be shared with Fujitsu for a review to ensure accuracy, as well as Paula's recommendation that POL should welcome the findings of the report and commit to improve the support and training provided to SPMs.

113. On 6 July 2013, Paula Vennells updated the Board advising that Alan Bates was willing to work with POL in respect of its programme to improve training and support. She also advised us that Alan Bates' "*main issue is not 'the computer' but the human aspect*" and that he had raised the idea of setting up a new independent third party that SPMs could approach if they were facing issues with Horizon which could not be resolved via usual POL channels (POL00099026). I cannot recall if I had received Second Sight's Interim Report by this time; I believe I received it on 8 July 2013.

114. By the time of the Board Meeting of 16 July 2013, I would have reviewed Second Sight's Interim Report (POL00130412) which had been long awaited by the Board. It was helpful insofar as it clarified what the broader definition of Horizon encompassed and highlighted some deficiencies for POL to resolve. I knew we needed to put in place an action plan which would remedy those deficiencies and was reassured that Paula Vennells' suggested approach as to next steps (as outlined in her email of 8 July 2013, POL00099121) had been received constructively by Lord Arbuthnot MP and the JFSA.

115. I remember being disappointed when reviewing Second Sight's Interim Report. After 12 months of work, I had expected more clarity, certainty and recommendations as to the detailed workings of Horizon and whether Horizon was responsible for the discrepancies reported by the JFSA and other SPMs. Given that this was only an Interim report and it was very clear that further investigations were needed, the Board agreed that it would be nonsensical to depart with Second Sight at such a critical stage – particularly given the amount of time it had taken to receive the Interim report. The Board were however unhappy with the limited progress that had been made and stressed that the Executive needed to improve their management of Second Sight's investigation so that future investigations were conducted in a robust but efficient manner.

116. Whilst there was no obvious answer as to the discrepancies reported by the JFSA and SPMs in Second Sight's Interim report, there were sufficient thematic issues reported to make me (and I think the rest of the Board) support the appointment of an independent party to adjudicate in disputed cases brought by the SPMs. Second Sight's Interim Report had highlighted that improvements could be made to the support and training available to SPMs which was the subject of a separate action plan.

117. I have been asked to set out what steps I thought POL should take in response to Second Sight's Interim report. By the time of the Board Meeting of 16 July 2013, my recollection is it had been agreed that there should be a scheme in place to address the SPMs complaints about Horizon in the immediate aftermath of the Second Sight Interim Report. The Board were

provided with an “Update on the work programme arising from the Horizon report” dated 26 July 2013 (POL00192962). This set out the proposal for what later became the Working Group and Mediation Scheme. At the time, POL’s intention was not to enter into mediation with those SPMs who had been subject to criminal prosecution. Instead, POL’s external solicitors, Cartwright King, were instructed to review past and present prosecutions to identify any cases where the Second Sight Interim Report needed to be disclosed. At the Board meeting of 27 November 2013 (POL00021520) the Board discussed past prosecutions and whether they would be included in the mediation process. The CEO explained that Sir Anthony Hooper, Chair of the Working Group, had originally thought this would be inappropriate, but was now inclined to look at each case individually. Ultimately, cases involving criminal convictions were admitted to the Scheme and were fully investigated. Applicants were then provided with the information gathered during the Post Office and Second Sight’s investigations so that applicants could use this material should they choose to appeal through the criminal courts (see ‘Mediation Scheme: What You Need To Know’ paper (POL00029805).

118. There was acceptance that as the results of Second Sight’s investigation had revealed flaws in the wider Horizon system (as defined by the Interim Second Sight Report) and if these were responsible for the discrepancies reported by the SPMs, then financial compensation may be appropriate and this would be assessed individually on a case by case basis.

119. I have been asked to what extent, if at all, did my views on POL’s response to the Interim Report diverge from other Board members or senior

management. Paula Vennells had been directly involved in most (if not all) of the face-to-face conversations with Lord Arbuthnot MP, other MPs and the JFSA. She had briefed the Board reasonably thoroughly on these issues in the two weeks before the Board meeting of 16 July 2013. Whilst I was not present at that meeting, thereafter, I do not recall any disagreement between the Board and the Executive regarding the key issues; namely, all parties wanted Second Sight to finish their investigation and everybody wanted an independent process to try to resolve the historical issues with the SPMs.

120. Having reviewed the minutes of the Board meeting of 16 July 2013 (POL00027514), it is clear there was a debate about how well the Second Sight investigation had been managed by the business – with the NEDs being more critical than the Executive. The NEDs were clear that POL needed to take a firmer grip on the remainder of Second Sight’s investigation so that it was concluded in an expeditious, but robust, way.

121. I was unaware of the existence and/or contents of the advice of Simon Clarke (document POL00006799) prior to receiving it as part of the disclosure pack provided by the Inquiry in relation to my Rule 9 request.

122. I have been asked to comment on the nature and extent of my involvement with, or oversight of, POL’s review of past convictions of SPMs in prosecutions based on data generated by the Horizon IT system. During the Board meeting on 16 July 2013 and as flagged in her emails over the previous couple of weeks, I note that Paula Vennells explained that POL planned to conduct a review with POL’s external lawyers on the implications of Second Sight’s

Interim Report for past prosecutions. The Board meeting minutes record that *“the Board were concerned that the review opened the Business up to claims of wrongful prosecution”* (POL00027514). As I was absent, I do not know who raised that point but the minutes present it as a consideration of the Board as a whole.

123. I did not have any direct involvement in the review of past convictions of SPMs based on data generated by Horizon. The Board agreed that this was necessary and were advised by the Executive that the position was being reviewed by POL’s external lawyers Cartwright King, who concluded that disclosure was appropriate in ten out of 301 cases. In view of the potential interest from the CCRC, Brian Altman KC was asked to conduct an independent review of the process, reaching the conclusion that it was “fundamentally sound”.

THE MEDIATION SCHEME

124. I was not directly involved in the establishment or running of the Initial Complaint Review or Mediation Scheme. Prior to the publication of Second Sight’s Interim Report on 8 July 2013, I was aware that Paula Vennells intention was to set up an independent working group who would be tasked with trying to resolve the SPMs’ issues with Horizon that had not been resolved via usual POL channels. In parallel, Alan Bates was suggesting a similar scheme. This resulted in the establishment of the Working Group which was represented by members of POL, the JFSA and Second Sight, who were tasked with assessing each SPMs’ complaint on a case-by-case basis and

determining whether they were eligible for mediation. This led to the Mediation Scheme established in August 2013.

125. I had greater oversight of the above schemes at Board Meetings prior to the establishment of the Sparrow subcommittee in April 2014. The idea behind the setting up of the Sparrow subcommittee was that they were a specialist subcommittee who would be able to undertake a “deep dive” into the Horizon issues and report back to the Board. The amount of focus needed on the many Horizon issues (the Working Group/Mediation Scheme, Linklaters advice and the Deloitte reports) meant that it made sense to create a subcommittee who had the necessary skills and could devote the necessary time to the issues. Once this was created, it inevitably meant that there were less detailed discussions at the whole Board. I had faith in the capabilities of the Sparrow subcommittee; its membership consisted of three NEDs, Alice Perkins (Chair), Alasdair Marnoch (Chair of ARC) and Richard Callard (Shareholder NED), who had been selected to form part of the subcommittee as they had been more heavily involved with the JFSA and the Working Group than myself. Alasdair Marnoch and Richard Callard were both accountants and Alasdair Marnoch had some knowledge of IT having worked in large software businesses. Paula Vennells and Chris Aujard were also members of the Sparrow subcommittee. The Board would be provided with the minutes of each Sparrow subcommittee meeting and an oral update would also be provided. I am confident that I would have challenged and asked questions of the Sparrow subcommittee if any part of what was being reported to the Board caused me concern.

126. The Business Support Programme, headed up by Kevin Gilliland, was established in parallel with the Working Group. This was a substantial project tasked with reviewing the thematic issues raised by Second Sight and resulted in changes in the way SPMs were appointed, trained, communicated with and supported. This was important as it had the potential to significantly reduce problems going forward.

127. I was not responsible for deciding the ambit of Second Sight's investigation and was not asked to be involved in the creation of their terms of reference. My understanding is that this was agreed by Paula Vennells in conjunction with the JFSA and Lord Arbuthnot MP.

128. I did not have any involvement in the extent of Second Sight's access to relevant information and documents. I do not know who was responsible for the extent of Second Sight's access to relevant information and documents.

129. I had no direct involvement in POL's response to Second Sight's findings. The Board were advised that Second Sight's Interim Report contained inaccuracies and was not evidence-based (POL00021515). I have set out my views on the quality of that report at paragraph 117 above. I believe Paula Vennells was responsible for POL's response to Second Sight's findings.

130. I do not recall receiving Second Sight's Part 1 Report, (POL00004439), Part 2 Report (POL00030160) or the updated Part 2 Report (POL00021791). Nor do I recall being provided with POL's response to the Part 2 Report (POL00030160). I was however aware of their existence and would receive

updates on their contents via the Sparrow subcommittee minutes and feedback at Board Meetings. I did not specifically ask to see these documents as I had complete confidence in the skills and abilities of the Sparrow subcommittee; all of whom I regarded as well qualified. I trusted the Sparrow subcommittee to raise any significant concerns with the Board directly (as is the way I operated in relation to all sub-committees of which I was not a member). My attention was also heavily focused on the other many significant challenges posed to POL at that time, particularly regarding the Network Transformation programme. I address this in further detail below.

131. On 10 March 2015, the Board were advised that POL had completed its investigations of cases under the Working Group and that all cases that had not been subject to a court ruling would be passed to mediation (see email from Alwen Lyons to the Board (POL00102370). This decision had been the topic of much discussion amongst the Sparrow subcommittee, which had been communicated to the Board in the preceding months and had resulted in Chris Aujard producing guidance documents “Initial Complaint Review and Mediation Scheme” in February 2014 (POL00027452) and “Initial Complaints Review and Mediation Scheme: The way forward” in June 2014 (POL00346787). The latter document had arisen out of Alice Perkins’ request in the Board Meeting of 21 May 2014 for the Sparrow subcommittee to explore whether the scheme could be changed (POL00027383). The Board were conscious that Second Sight’s assessment of individual cases was taking a very long time and was not progressing in any meaningful way. Originally the scheme was due to have completed all cases by March 2014. As of 12 December 2014, only 7 of 150 applicant’s cases had been mediated and far

more than that were still waiting for Working Group review. The Post Office had trained 20 investigators to work on these cases. The closure of the Working Group was brought about with a view to accelerating the whole scheme. Any SPM referred to mediation still had the option of obtaining a report from Second Sight (which POL would fund) but we removed the necessity of the report from Second Sight as a mandatory part of the process with a view to bringing the scheme to a conclusion in an expeditious way. The Sparrow subcommittee took the lead on this strategy and reported back to the Board with its recommendations. I was aware and supportive of this decision as I believed the changes to the scheme were designed not to “terminate” the process but to accelerate it, which I believed was in the interests of all parties.

132. I have been asked who at POL was responsible for strategy and/or decision making in respect of the Mediation Scheme and Working Group. Paula Vennells was responsible for the creation of the Working Group and Mediation Scheme, as well as the framework of how it would operate. Paula Vennells appointed Belinda Crowe as Programme Director for Project Sparrow. Belinda reported to the General Counsel and then onto Paula Vennells. She led on all issues regarding the Working Group and Mediation Scheme for POL and also led the Lessons Learnt Review on the appointment and management of Second Sight.

133. The Board were provided with details of how the Mediation Scheme and Working Group would operate in an email sent on Paula Vennells' behalf on 28 August 2013 (POL00027792). I was supportive of the scheme and was keen that there should be a collaborative and supportive approach involving

the JFSA to resolving the conflict between POL and the SPMs.

134. As to which cases should form part of the Mediation scheme, it had been discussed and agreed by the Board that an independent person should be appointed to Chair the Working Group. On 31 October 2013, the Board were advised that the Rt. Hon Sir Anthony Hooper had been appointed (minutes of Board meeting (POL00021519)). My understanding of the scheme was that Sir Anthony Hooper had a significant amount of autonomy as to how the scheme would run and he ultimately had the casting vote to decide to refer a case to mediation if POL and JFSA could not agree. Second Sight were also appointed to prepare reports for each applicant's case with a recommendation on whether the case should be referred to mediation. I was supportive of this approach; in order for the scheme to work, it needed to be independent.

135. The Board were informed that the mediation would be undertaken by the Centre for Effective Dispute Resolution, ("CEDR"), which was reassuring given that they were entirely independent and would provide credibility and greater confidence in the scheme.

136. I believe Paula Vennells was responsible for the decision on whether to offer financial compensation to SPMs, albeit she would have been assisted by Belinda Crowe, Chris Aujard and other members of her Senior Leadership Team. Whilst there eventually was disagreement between the parties about the level of compensation, there was always an intention to offer financial compensation.

137. At its inception, the ambit of the Mediation Scheme was primarily Paula Vennells' responsibility though the Sparrow subcommittee. The Board, to a lesser extent, did have some influence on the ambit once it was formed. I have provided further detail in relation to this later in my statement.

138. I have been asked who at POL was responsible for determining whether to commission further independent investigations into the integrity of the Horizon IT system and the ambit of any such proposed investigation. In February 2014, the Board commissioned Linklaters LLP to provide advice concerning the level of claims and potential financial exposure for POL in connection with the Mediation Scheme, prompted by the emerging claims for compensation far exceeding what POL had expected ("Linklaters advice"). The Board also asked Linklaters LLP to address alternative mechanisms that could be used to address the current cohort of mediation cases. Linklaters produced a report on 20 March 2014 (POL00107317), which provided reassurance regarding POL's liability provided Horizon was fit for purpose but reiterated the Board's previous concern that Second Sight's Interim Report (POL00130412) had not definitively addressed the reliability of Horizon. On 26 March 2014, the Board agreed to commission a further piece of work to address this issue (minutes of the Board meeting (POL00021523), which resulted in the instruction of Deloitte. At the Board Meeting of 30 April 2014, the Board questioned Gareth James, a Partner at Deloitte, seeking clarity on whether Horizon was a reliable and robust system. The minutes reflect Gareth James' position that at that time, Horizon showed strong areas of control but further work was required in order to be definitive. This resulted in Deloitte's Board Briefing dated 4 June 2014 (POL00130618). This is addressed in further detail later in my statement.

139. I have been asked who at POL was responsible for the strategy of responding to concerns raised about the Horizon IT System by MPs and journalists. Paula Vennells was responsible for the strategy of responding to concerns raised about Horizon by MPs and journalists. When responding to journalists, she would have had significant assistance from Mark Davies, Group Communications and Corporate Affairs Director. In respect of MPs, I believe she would have been assisted by Alice Perkins and Alwen Lyons, Company Secretary.

140. I have been asked what my and the Board's key priorities were from July 2013 - September 2015. Many of the priorities were consistent with those from the two years prior. POL was continuing its huge Business transformation journey to make it fit for purpose for the future. POL's shareholder – the Government - had signed off on a very significant £1.5 billion funding agreement with the expectation that POL became less loss-making initially and then profitable, so that it decreased its reliance on the annual government subsidy. As a result, my focus was on helping POL grow revenue and cut costs. The main revenue areas (i.e. all the products that POL sold) – Mails, Government services, Financial services, Telecoms and Energy- were the subject of much work to generate additional revenue (and customer footfall) flowing through Post Offices. The entire network of Post Offices needed to be transformed to become more “what the customer wanted” (i.e. removal of Post Offices behind bars, modernising them into what you see today and extending the opening hours). During this period, there was also significant debate about “Network Transformation” moving from voluntary conversions (which is all

there had been so far) to mandatory conversions. The “Digital” project was picking up pace as we went about digitising everything we sold so we could offer our customers the ability to transact with Post Office physically or digitally - however they wanted.

141. Cost-cutting mainly focussed on;

- The Crown Network (the large Post Offices directly run by POL) which had been losing £50 million a year and needed to become profitable;
- Re-engineering both the cash supply chain and also the IT infrastructure, both of which were costing very significant amounts of money, but were not providing a good service;
- The governance function which was also developing with the business developing an Enterprise Risk Management framework and an internal audit function to improve its capability.

142. Personally, I was heavily involved in all of the above projects – i.e. – what POL sold and how they sold it, with the intention of bringing it back to profitability.

143. In addition to the above, there were three areas which increased in importance significantly during this period. Two of these areas resulted in the establishment of subcommittees to provide better governance:

- The work on the Horizon issues had become a bigger priority following the Linklaters advice and the slow progress being made with the

Mediation Scheme. There were many workstreams addressing the deficiencies identified in Second Sight's Interim Report, which were running in parallel – i.e. the Business Support Programme, the Working Group/Mediation Scheme, The Lessons Learnt Review and the review of POL's Prosecution Policy. From March 2014, this was governed through a new Board subcommittee – the Sparrow subcommittee – which I have addressed above. I was not personally involved in this other than when the Sparrow subcommittee reported to the Board.

- Financial services was accelerating, and growing in importance and complexity and so a new Financial Services subcommittee was formed with Virginia Holmes as Chair and Tim Franklin as a member. Once the subcommittee was formed, I had far less to do with Financial Services.
- There was a growing desire to create a pathway to allow POL to be changed from a Government-owned business to a mutual (i.e. owned by the stakeholders rather than by the Government, similar to the Co-op). This required different governance and ways of working with its stakeholders. As such, there was a priority to accelerate a better relationship between the SPMs and Head Office, which resulted in the formation of the Post Office Advisory Council. This was chaired by Tim Franklin with myself as a member. I was heavily involved in this.

144. I have been asked for my view on the purpose of the Mediation Scheme when it was introduced. The Mediation Scheme was created to resolve

individual complaints that SPMs had made about Horizon. To my recollection everybody on the Board thought that it was a good idea, and we were keen that it had support from all stakeholders and that it had an independent Chair.

145. I was not aware of any difference between POL's public position on the purpose of the Mediation scheme and views of the Board or Senior Management.

146. I have been asked why Susan Crichton resigned from POL. I do not know why she resigned. I'm sure Paula Vennells gave an explanation during the Board meeting of 25 September 2013 (POL00021518) but I cannot remember what that explanation was and at the time I do not remember it ringing alarm bells with me. The Board were keen to ensure that the Horizon issues were properly managed whilst the interim General Counsel was brought up to speed. As evidenced in the minutes at POLB 13/88, Paula Vennells advised the Board that an interim General Counsel would receive a full handover.

147. I have been asked to what extent, if at all, did I notice any change in approach to the Mediation Scheme and/or Second Sight upon Susan Crichton's resignation and the appointment of Chris Aujard. The Mediation Scheme was in its infancy at the time that Susan Crichton departed from POL and I do not remember noticing any particular change in approach following Chris Aujard's appointment.

148. I had no reason to believe I was receiving anything but accurate and complete information regarding Horizon from POL's senior management. I

trusted Paula Vennells, Susan Crichton, Chris Aujard and Mark Davies to be open and transparent about any issues which required the Board's attention. In my capacity as a NED, I would receive regular updates either at Board meetings or in-between. The basis for the establishment of the Sparrow subcommittee was to allow for a detailed and robust review to be undertaken of the "Sparrow issues". The minutes of each Sparrow subcommittee meeting were provided to the Board and either Paula Vennells or Alice Perkins would provide an oral summary of the issues. We would also receive regular updates on the Business Support Programme and the progress of the Mediation Scheme.

149. Overall, I felt I was receiving accurate information; much of it was at a summary level rather than the level of detail that the Sparrow subcommittee would consider. At the time I did not feel that the Board were being misled or being given inaccurate or incomplete information. I had greater visibility over the detail in the review of POL's Prosecution Policy as this was a topic of discussion at ARC meetings.

150. The minutes of Board Meetings reflect there were many occasions where the Board probed the Executive for further information or reassurance on the range of Sparrow issues. If I felt I did not have enough information by which to make a decision, I would say so.

151. I cannot remember which member of the Board sought advice on personal liability for malicious prosecution and/or reporting the possibility of such claims to the insurer. I am confident this query did not come from me. I cannot be sure

why the question was asked but I assume one of the Directors was concerned about personal liability for wrongful prosecution and wanted to understand who it would impact and the position regarding insurance.

152. The Board received advice on this issue via Chris Aujard's "Update on the Work Programme arising from the Horizon Report" dated 26 July 2013 (POL00192962).

153. I have been asked to set out the nature and extent of my involvement in the Board's and ARC Committee's review of POL's prosecutorial function and in particular my understanding of the difference between civil and criminal legal proceedings. My understanding is that the primary purpose of criminal prosecutions is to punish and deter wrongdoing. The primary purpose of civil proceedings is to recover financial loss and/or compensation.

154. My main involvement with POL's prosecutorial function was via the ARC committee meetings of 19 November 2013 (POL00038678) and 11 February 2014 (POL00038643). In preparation, ARC received a proposal from Chris Aujard dated 13 November 2013 (POL00027143). Prior to these ARC meetings, I did not have detailed knowledge of the prosecutorial powers of POL. I was also in attendance at the Board meeting of 26 February 2014 (POL00021522) when the company's Prosecution Policy was reviewed.

155. I recall there were mixed views at the ARC as to the change in policy. Overall, there was a consensus that there should be a change in approach and I remember being surprised that with the exception of RMG, POL was the only

commercial organisation of its type that carried out its own private prosecutions. This had been brought to my attention by Brian Altman KC's report. The ARC committee queried how the business would be able to recover branch losses through the Civil Courts and were advised by Chris Aujard that it "*may be slower and not recover much*" (POL00038678). We were hesitant to make a sudden and significant departure without further information. At the November 2013 meeting, it became clear that more work needed to be done to understand the implications of any change in policy. We requested further information from Chris Aujard who provided ARC with document 'Prosecution Policy' (POL00030900) on 7 February 2014.

156. The ARC considered three options as set out in section 4 of POL00030900:

- Option 1: Preserving the status quo- i.e. continuing with a prosecutions policy substantially the same to that used previously;
- Option 2: Pursuing a prosecutions policy more focused on more egregious misconduct- i.e. higher value cases and/or those involving vulnerable members of society and/or those involving particularly wilful wrongdoing and engaging with the police in relation to other matters;
- Option 3: Ceasing all prosecutorial activities but instead actively involving the police/CPS where it was felt they were likely to take matters forward.

157. There was a fair amount of debate about this, albeit nobody was in support of the Prosecution Policy continuing unchanged. I did not believe it was necessary for POL to maintain such a strong emphasis as it had done on deterrence against SPMs committing theft, false accounting or fraud. The recovery of money was discussed but was not an issue – the sums of money involved in criminal prosecutions were relatively small and it seemed to me that civil proceedings were more effective in asset recovery, which I pointed out to my fellow ARC members in an email to the Board dated 11 February 2014 (POL00104233). I also felt that continuing a policy with such a strong emphasis on deterrence ran contrary to the aims of the transformation programme where POL’s engagement of the SPMs was key. It would also be counterproductive with the path to mutualisation and also to Network Transformation, both of which I supported. My recollection is that myself, Alice Perkins and Susannah Storey were largely in support of Option 3, whereas the Executive largely favoured Option 2. There were several arguments that Paula Vennells put forward as to why option 2 would be better – and may be a good interim step rather than going straight to option 3 which included:

- because the situation was still changing rapidly as the Branch Support Programme was starting to have success in reducing the number of SPM Horizon issues;
- because there was the potential for an “over-interpreted” read-across to the ongoing Mediation Scheme and the planned Horizon replacement programme – i.e. that it would be seen as an admission that we were wrong to pursue prosecutions in the past. Paula also

highlighted that the huge scale of POL made it unlike any of the other companies it was compared with;

- and also there was concern that the CPS would not have the capacity to take cases on.

158. The ARC ultimately concluded, and the Board supported, that POL should adopt Option 2 so that POL's Prosecution Policy should change so as to only pursue the most serious cases involving vulnerable members of society, very high value cases or cases with particularly wilful wrongdoing. POL would pursue all other cases via the CPS or the Civil recovery route. I (and others), saw this as an interim step and it was agreed it would be reviewed at least once a year. The direction of travel was towards stopping criminal prosecutions altogether, but this policy seemed a sensible interim step whilst there were so many moving parts. I supported this change and in my mind the level of risk between pursuing Options 2 and 3 was low given that POL had paused all prosecutions.

159. So, in summary, I did not believe that it was necessary for POL to maintain such a strong emphasis on there being a deterrent against SPMs committing theft, false accounting, or fraud, although I felt that there should remain some level of deterrence.

160. I have been asked if I considered the perceived convenience of recovering money to be a reason to prosecute SPMs for alleged shortfalls rather than seeking civil recovery. I do not think this was a consideration. The main reason that criminal proceedings took place was to punish the offender and act as a

deterrent, which I believe, was a hangover of the RMG approach. In many instances, POL did already initiate civil proceedings for debts that it believed were owing by SPMs, rather than via a criminal route. I took the view that if the key motivation was asset recovery, POL would be better off pursuing the civil route. I have addressed this in more detail in my answer to question 51.2.

161. I have been asked to what extent, if at all, did the Mediation Scheme influence the decision making on POL's future prosecutorial role. Following the publication of the Second Sight interim report in July 2013, there were a number of parallel streams of work initiated: a review of past prosecutions and POL's future Prosecution Policy, the creation of the Working Group/Mediation scheme, the Business Support Programme and a Lessons Learnt Review. These were independent and running in parallel, but feedback from Second Sight's Interim Report was the common link.

162. The ARC discussed in November 2013 (POL00038678) and February 2014 (POL00038643) whether a change in the Prosecution Policy would influence the mediation process. There was a concern from some that if we adopted a policy to stop prosecutions altogether, it could be seen as an admission by POL to have pursued prosecutions without merit. Whilst this was a consideration for some, ultimately, I think overall it was only a small factor in the decision to adopt a new policy.

163. I have been asked to describe my and the Board's views on the Linklaters advice produced in March 2014 and in particular, what steps were deemed necessary or appropriate in light of that advice.

164. I cannot remember the views of individual Board members regarding Linklaters advice (POL00107317). However, I do not recall that there was any material difference of views between us.

165. I found the Linklaters advice reassuring in that it reiterated that absent any proof that Horizon was malfunctioning, POL was within its legal rights to recover losses (whether made by user error or theft) and as such, it was generally not liable to pay significant amounts of compensation in those cases and therefore, the total amount that could be claimed by applicants was likely to be significantly less than the £100m that had been previously flagged to the Board.

166. However, the one area that I (and I think the rest of the Board) wanted follow up on, was to get to the bottom of whether there was any evidence to suggest that Horizon was not working as it should be. The Linklaters advice appeared to share the Board's view that Second Sight's Interim report did not adequately address this, particularly whether any weaknesses or points of malfunction had been identified. In the detail of the individual cases brought by the SPMs, there seemed to be a distinct lack of evidence as to how and why there may have been malfunctions with Horizon and how any such malfunctions could have caused the losses in the particular cases. As a result of all of the above, the Board wanted that clarity to give us reassurance that Horizon was robust and not responsible for the losses. The Board meeting minutes of 26 March 2014 (POL00021523) reflect that the Linklaters advice was one of the catalysts for the setting up of the Sparrow subcommittee and the following action points:

- The commission of a further piece of work to review Horizon, how it was supposed to work, before identifying any weaknesses and likely points of malfunction;
- For the terms of reference of that further piece of work to be reviewed by Linklaters LLP to ensure this work would answer the question as to whether Horizon was reliable;
- For the Sparrow subcommittee to review and agree the terms of reference, once approved by Linklaters LLP.

167. At the Sparrow subcommittee's first sub-committee meeting on 9 April 2014 (POL00148075), they approved the terms of reference for the Deloitte Project Zebra Reports. The Sparrow subcommittee was responsible for the instruction and overseeing of Deloitte's Horizon assurance work. The minutes of the first Sparrow subcommittee meeting reflect at that time that *"no issues had yet been identified through the cases being investigated or any other route that has called into question the integrity of Horizon"* (PS14/4).

168. On 30 April 2014, Gareth James, a Partner at Deloitte, addressed the Board directly. He provided a reassuring summary that *"all the work to date showed that [Horizon] had strong areas of control and that its testing and implementation were in line with best practice. Work was still needed to assure the controls and access at the finance service centre"* (minutes of the Board meeting (POL00021524). My recollection is that the Board probed Gareth

James as we were concerned to know the truth about Horizon's reliability (POLB 14/55). The Board agreed at its meeting of 21 May 2014 that the review would be considered by the Sparrow subcommittee when it was ready (POL00027383, POLB 14/76). I cannot remember the views of individual Board members. I did not myself feel concerned following Deloitte's Phase 1 Report (POL00105635) and I was reassured that the Sparrow subcommittee would consider the final report in detail and would report back any concerns.

169. I received Deloitte's Board Briefing ("the Briefing") (POL00130618) by email on 4 June 2014 (POL00029733) sent on behalf of Lesley Sewell and Chris Aujard. The email which accompanied the document read positively and did not draw my attention to any red flags- which I would have expected them to do given they acknowledge the content is "technical". My IT skills are basic. When I read the Briefing document it was clear that some controls needed to be improved, but I did not think there was a major problem. The Executive Summary did nothing to correct that impression.

170. The Briefing was not discussed by the Board at the meeting of 10 June 2014 (POL00021526) as this was in fact a Strategy Away Day with a packed agenda and many external speakers/guests. It was agreed that the Sparrow subcommittee would review the Briefing at their next meeting and consider whether Deloitte should be instructed to carry out a "Part 2".

171. I did not receive Deloitte's full Report.

172. I have been asked to set out the detail of any discussions I had concerning

the termination or restriction of the ambit of the Mediation Scheme and Second Sight.

173. The Board were concerned that the Mediation Scheme was taking too long and Second Sight did not appear to have the resources to cope with the volume of work in a reasonable timescale to a sufficient standard. My recollection is that this was first raised in early 2014. At the February 2014 Board meeting, Paula Vennells reported that Second Sight had yet to produce their first written report for the Mediation Scheme (POL00021522) and in March 2014 it was reported that Sir Anthony Hooper had challenged the quality of the work undertaken by Second Sight, insisting on more evidence-based reports (POL00021523). The Board responded by establishing the Sparrow subcommittee to monitor the scheme in more detail and consider whether any other alternative arrangements might help to bring matters to a resolution. At their meeting of 9 April and 30 of April 2014, the Sparrow subcommittee considered various options to change the Mediation Scheme and the involvement of Second Sight.

174. An Update Paper was prepared by Chris Aujard for the Board in June 2014, in which a number of alternative options for the mediation process were identified, although not implemented (UKGI00002392). By November – December 2014, it appeared that the scheme was failing and was likely to be unsustainable. Both POL and the JFSA seemed to lack confidence that the scheme would work. A paper (POL00102254) came to the Board dated 2 March 2015, with an update following a Sparrow subcommittee meeting of 18 February 2015. The Sparrow subcommittee had endorsed the Project team's

recommended approach i.e. to change the Mediation Scheme, so that POL adopted a presumption in favour of mediating all non-criminal cases within the complaint review and Mediation Scheme. This would mean all cases would go straight to mediation and bypass the Working Group's assessment (although applicants could still request a review of the case by Second Sight if they wanted which would be funded by POL). The Sparrow subcommittee and the Board thought that this would make the process faster, simpler and more likely to reach resolution.

175. I do not recall being provided with a copy of Second Sight's Briefing Report Part 1 dated 25 July 2014 (POL00004439). However, the Board was briefed by the Sparrow subcommittee and advised that no systemic issues had been found with Horizon (POL00027514).

176. I do not recall being provided with Second Sight's Briefing Report Part 2 dated 21 August 2014 (POL00030160). However, the Board was provided with an update from Chris Aujard on 29 August 2014 who reported that the report was "*both of a poor quality and somewhat one sided*". He described the report as "*inaccurate*", "*contained no clear statement of the evidence upon which many of the opinions expressed in it were based*" and included a "*commentary on matters which are beyond the scope of the Scheme*" (POL00101243). I had no reason to doubt what I was being told although I was frustrated at the whole process. I knew the reports had been reviewed by the Sparrow subcommittee in-depth and deferred to their judgment.

177. I have been asked why I wished to explore whether POL could use the leak

of Second Sight's Part 2 briefing report to "*stop/alter the process that we are involved in*" (POL00101325). My reference to "Sparrow" in document POL00101325 was a reference to the Working Group/Mediation Scheme and not the wider Horizon issues. As set out above, by September 2014 my view was that the existing Working Group/Mediation Scheme was not working well. It was taking far too long without any real resolution and did not seem to be in anyone's interest. My reference to "*stop/alter the process that we are involved in*" was a reference for my desire for the Sparrow subcommittee to find a better and more efficient way of doing things.

178. I have been asked why I felt the closure of the Working Group had been "*very well handled*" (POL00102370). The closure of the Working Group was a sensitive issue and needed to be handled carefully and effectively so that the SPMs did not disengage from the Mediation Scheme. It was common for me to give praise to members of POL who had executed a task well to say thank you and well done. This is what I was doing in my email to Jane MacLeod and Mark Davies.

INTERIM CHAIRMAN AND RESIGNATION

179. I have been asked to explain the background to my appointment as Interim Chairman. The original succession plan was for Tim Parker to seamlessly take over as Chairman from Alice Perkins at the beginning of August 2015. However, it took slightly longer to recruit Tim Parker than originally planned and Alice Perkins did not want to extend her departure date. It was announced that Tim Parker would take up the role of Chairman on 1 October 2015. I was

asked and agreed to take on the role in the interim period (minutes of Board meeting of 15 July 2015 (POL00021535). I chaired one in-person Board Meeting on 22 September 2015 in my capacity as Interim Chair (POL00021538). My responsibilities during that period were that of a normal Chairman. However, I was conscious that Tim Parker's arrival was imminent and he had agreed with Baroness Neville-Rolphe that he would undertake his own independent review of the Horizon issues once he joined the Board. I therefore very much saw my role as "holding the fort" during the intervening period between Alice Perkins and Tim Parker.

180. I resigned from POL because my four-year contract came to an end. I felt a strong affinity to the Post Office and I very much wanted to see it continue into the future in a sustainable shape and I felt proud of what we had achieved at that time.

GENERAL

181. I have been asked for my views on the adequacy of the POL Board's oversight of the integrity of the Horizon system. Throughout my tenure, there were very regular discussions at Board meetings about the integrity of the Horizon system. The Board were consistently provided reassurance by a multitude of individuals – many of whom had either specialist IT or accountancy expertise- that Horizon was robust and fit for purpose. Examples of this include:

- At one of my first Board meetings on 12 January 2012 (POL00021503), when POL were still under RMG ownership, there was a discussion between Les Owen and Susan Crichton where the Board were assured that Horizon worked as expected and was not responsible for the SPMs losses (POL00021503);
- RMG/POL's Internal audit, with the results reviewed by Deloitte;
- The ISAE 3402 IT annual audit jointly commissioned by POL and Fujitsu (see minutes of the ARC 13 November 2012 (POL00021430);
- Ernst & Young (the auditors for POL) regularly audited Fujitsu IT controls and noted no issues of concern as evidenced in the minutes of the ARC, 15 May 2014 (POL00108523);
- By Fujitsu and their expert witness who would regularly give evidence in court under oath about Horizon's reliability which resulted in convictions;
- Second Sight's Interim Report which stated they had found no evidence of any "*systemic flaws in Horizon*". A Business Improvement Plan was set up to improve the findings around training and support;
- Following Linklaters advice, the Board commissioned Deloitte to carry out a further review. Gareth James' update to the Board on 30 April

2014 reassured us that “*all the work to date showed that [Horizon] had strong areas of control and that its testing and implementation were in line with best practice. Work was still needed to assure the controls and access at the finance service centre*” (POL00021524); and

- Deloitte’s Phase 1 Report (POL00105635) and Briefing (POL00130618) did not raise any particular red flags with me, albeit I knew the controls around the system needed improving. The Sparrow subcommittee who were responsible for reviewing these documents in detail did not flag any concerns.

182. At Board meetings, there was regular questioning and probing of the Executive team by the Board regarding the integrity of Horizon, as evidenced, by way of example, in the minutes of 26 March 2014, (POL00021523), 30 April 2014, (POL00006566) and 21 May 2014 (POL00027383). The Board set up the Sparrow subcommittee to give detailed oversight of Horizon’s integrity and linked issues.

183. To assist the Inquiry in putting the matter in context, each day, six million transactions were carried out by about 70,000 users of Horizon on behalf of POL without a problem. In the context of 150 SPMs in the mediation scheme, out of the 500,000 users of Horizon (going back in time to when Horizon was introduced), this seemed to be quite a contained issue, which would not indicate a system-wide issue. I personally was not hearing the same Horizon issues coming from the National Federation of Subpostmasters (“NFSP”) or from visits I made to individual Post Offices. So, at the time, I felt there was a

reasonable amount of oversight from the POL board about the integrity of the Horizon system.

184. Regarding the Board's oversight of prosecutions and civil proceedings based on data generated by the Horizon IT system, throughout 2012, the Board had limited visibility over prosecutions or civil proceedings; relatively little information came to the Board, and the Board was largely unaware of the size of the issue.

185. Following the decision to appoint Second Sight, the Board ensured they had updates at each Board meeting until Second Sight's Interim Report was issued on 8 July 2013. At this stage we were aware (and supported) the pause of all future prosecutions whilst a review was undertaken. I think this was reasonable oversight in the context of the information that was known to the Board.

186. It has subsequently become clear that I was not provided with (or made aware of) Simon Clarke's appointment or the reports he provided. That is wholly unacceptable. However, I do not regard this as a lack of oversight on my part; I cannot have oversight of matters of which I have no knowledge.

187. The response to the Board's concerns about claims of wrongful prosecution led to the review from Brian Altman KC, who was asked to oversee the process of reviewing historical cases, advise on disclosure obligations and make recommendations as to future policy. I believe this was good governance. His report concluded that the process was fundamentally sound and identified that

POL needed to disclose Second Sight's Interim Report in a select number of cases. This was reassuring and I do not think there was a basis to prompt a further review.

188. The Board had faith and trusted in Susan Crichton, Chris Aujard, Brian Altman KC, Cartwright King and Bond Dickinson - all of whom were legal professionals. I had no reason to be suspicious of their advice, particularly as independent legal advice had been sought. This view was strengthened by the Significant Litigation Reports which confirmed no appeals against convictions had been lodged by any of the SPMs.

189. The Board requested that the ARC conduct a review of POL's Prosecutions Policy which resulted in a change that very significantly reduced the scope of cases that POL would prosecute.

190. In January 2015, the Criminal Case Review Commission ("CCRC") asked for "*information on the Criminal cases involved in Sparrow*" ('Sparrow and the CCRC Paper (POL00021531)). Following the Board Meeting of 28 January 2015, Mark Davies informed the Board that the investigation of all cases within the Mediation Scheme was now complete and "*[POL] have not identified anything through the scheme to suggest a conviction is unsafe, and no appeal has been made against a conviction*" (UKGI00003151). By this time, the Sparrow subcommittee had been set up, and they discussed the CCRC request at their meeting on 18 February 2015 (POL00006574). Once again, the Board were confident that there was nothing to suggest that convictions were unsafe and no appeal had been made against any conviction. Paula

Vennells was planning to positively engage with the CCRC, which felt appropriate.

191. Overall therefore, I think that the Board's oversight of prosecutions and civil proceedings brought by POL based on the data generated by the Horizon IT system was adequate.

192. However, with what I know now, what transpired was plainly wrong. Had I received Simon Clarke's advice (as I should have done), I believe the situation would have been different.

193. As to my views on the adequacy of the government's oversight of POL, my view is that the Government's level of oversight as to the workings of the Board and POL was reliant on the level of information passed to it and shared by the ShEx representative of the Board.

194. I have been asked to reflect on my time at POL and set out whether there is anything I would have handled differently in relation to the Horizon IT system and its associated issues. With hindsight, a consistent theme running throughout the chronology is the lack of information which was given to the Board. It is the responsibility of the Executive to provide the Board with accurate, up-to-date information on the operation and management of the company. It is the responsibility of the Board to satisfy itself that the company is being properly run, and to ask for more information where that is required. In hindsight, in my view, the main issue was the absence of key information which was held back from the Board which meant that the Horizon issues were

not high enough on the Board's radar. With hindsight, in respect of the information we were given, the Board was too trusting of the Executive and did not ask for detailed source information often enough.

195. Of the over 900 private prosecutions brought between 1999 and 2020, the vast majority (well in excess of 800) were brought before April 2012 when POL was still under RMG ownership and overseen by RMG's management. When POL became independent on 1 April 2012, it inherited the vast majority of the Horizon issues as legacy issues, yet myself and the other NEDs were not provided with any corporate history about this. It is clear from POL00046944 that issues concerning remote access were being raised under RMG's ownership before I was appointed, yet nowhere, in any briefing to the new POL board, or to Government, was this disclosed as an issue. That feels wrong. Had I been informed of the Horizon issues from the outset, I believe I would have pushed for the adaptation of the Board so that it included those with specialist IT and legal skills- instead of relying so heavily on the apparent expertise of others. As a Board, we also would have probably commissioned someone like Deloitte to do a discreet piece of work, specifically regarding remote access, which might have flushed out the issue much earlier.

196. The situation was worsened by the context that the Board were operating in. At the formation of POL in April 2012, there were very many, very significant issues fighting for attention: Network Transformation, subsidy funding, preparation for mutualisation and pension arrangements, all of which have been detailed in my response.

197. The Board did challenge the appointment of Second Sight as we were concerned whether they had the resources and the requisite expertise. With hindsight, I should have pressed harder and my view remains that the situation would have been improved by the instruction of one of the "Big Four" accountancy firms. The Board also could have undertaken a detailed review of Second Sight's letter of engagement and scope. However, at the time the Board did not realise its importance and we were reassured that the JFSA and Lord Arbuthnot MP were supportive of the Mediation Scheme.

198. The Board ideally should have been more involved in the ongoing management of Second Sight. Linklaters LLP were very critical of their work in their report of March 2014 and with hindsight this could have prompted more active intervention.

199. In July 2013, Simon Clarke's advice was not shared with the Board. Instead Brian Altman KC's report was commissioned by the Executive without my knowledge of the existence of Simon Clarke's advice. I can see no good reason why Simon Clarke's advice was not shared with the Board. It may have changed our decision-making and attitude as it was significantly more critical of POL than Brian Altman KC's review. Similarly I was unaware of the existence of the Helen Rose report and I do not believe that I was told that the reason that we could no longer use Gareth Jenkins was because he had been discredited.

200. I do not think that the Board received the full Deloitte Project Zebra Report. I do not know if the Sparrow subcommittee saw it. The Board was given a

somewhat misleading verbal briefing and an incomplete Board Summary, neither of which clearly exposed the serious problems that Deloitte found.

201. I do not recall seeing any of Second Sight's Reports following the Interim Report in July 2013. I assume that they were discussed in detail at the Sparrow subcommittee, but the discussion at Board level was at summary level only. Looking back now, it clearly would have been better to have had more detailed discussions using source documents at the Board. However, again, this has to be seen in the context of the huge workload that the Board had and the whole reason for having subcommittees in the first place.

202. It is inevitable and right that the NEDs place trust in the Executive on any Board. However, my ability to challenge the Executive is contingent on the information that is shared with me. I strongly believe that if the Executive had been more transparent and provided the Board with the information it should have, the outcome would have been different.

203. I can confirm, having been asked, that there are no other matters that I consider of relevance to the Inquiry that I would like to draw to the attention of the Chair.

Statement of Truth

I believe the content of this statement to be true.

Signed:

GRO

Dated:06/06/24_____

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