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# The Societal Impact of Faulty Accounting

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## Abstract

This article covers the implications of mishandling a faulty accounting system and the false reports it generated, using the case *'Mr. Bates vs. The Post Office'*. The wider social implications that arise from such faulty information is considered in detail. The impact it had on the lives of hundreds of innocent sub-postmasters and their families when the Post Office started prosecuting to recover the money that was reported missing raises questions about the powers of institutions that make up our civil society. It also raises questions as to why was it that most IT specialists and accountants who are aware that information systems have bugs do not act as whistle-blowers. The case raises questions as to if this a case of software error or a case of large-scale fraud. The case highlights that the societal impact of any accusations need to be judicially handled both technically and politically. The fact that the Post Office has the right to prosecute without any oversight demands a closer inspection of accountability in these institutions. While the societal impact of faulty accounting at the British Post Office is considered in depth, a similar scandal called *'Robodebt'* and its impact in Australia is also considered.

## Introduction

In early January 2024, a dramatisation of a lesser-known miscarriage of justice moved over a million people in the UK to sign a petition demanding justice for the accused and prompted the British government to announce a new law.

This semi-fictionalized series, *'Mr. Bates vs. The Post Office'*, tells the story of how post office branch managers in the UK (called sub-postmasters) were falsely accused of theft and false accounting beginning in 1999, leading to over 700 prosecutions. In reality, the problem stemmed from flawed software in the Post Office's 'Horizon' centralised computer accounting system, which falsely gave the impression that money was missing from its branches.

Despite demonstrating that the problem sprang from a software glitch rather than any illicit actions on their part, the accused were fired, had to pay back the substantial "losses" they had incurred, and were even imprisoned. The thousands of innocent people involved and their families suffered a serious and heartbreaking toll as a result of what has subsequently been dubbed the "*most widespread miscarriage of justice in UK history.*" Many went bankrupt, lost their homes, divorced, and experienced mental health problems.

While the article covers the implications of mishandling a faulty accounting system and the false reports it generated, there are wider social implications that need to be considered. Most IT specialists and accountants are aware that, very often, information systems have bugs that need to be judicially handled both technically and politically. The impact it had on the lives of hundreds of innocent sub-postmasters and their families when the Post Office started prosecuting to recover the money that was reported missing raises questions about the powers of institutions that make up our civil society. The fact that the Post Office has the right to prosecute without any oversight demands a closer inspection of accountability in these institutions.

Furthermore, as money just does not disappear, if the sub-postmasters had not taken the money from their tills, then who had? Was this a software error or a case of large-scale fraud? Finally, why

is it that many professionals, both in IT and accounting, kept quiet when they were well aware that sub-postmasters were being falsely prosecuted? Did they not have an ethical requirement to ‘whistle-blow’, despite their fears of being legally harassed themselves?

While the societal impact of faulty accounting at the British Post Office will be considered in depth, a similar scandal called ‘*Robodebt*’ and its impact in Australia will also be considered.

## The Social Impact of Media

The hit ITV series about the British Post Office scandal got instant results. On January 10, 2024, British *Prime Minister Rishi Sunak* declared that a new law would compensate and clear the scandal’s victims. Additionally, a £75,000 “upfront payment” was to be made available to hundreds of postmasters by the UK government. It is unclear when or in what format the new law will be introduced (Stewarts, 2024).

*How could one TV show possibly have such an impact, especially as the underlying cause was an accounting software error?*

Usually, although the terms “*computer system errors*” or “*false accounting*” may make riveting reading to accountants and IT geeks, they generally make most people’s eyes glaze over.

However, the story was humanised for the first time as a David-and-Goliath-type affair. It tells the story of a group of these workers, led by Alan Bates, who had been fighting for their rights for 25 years. A couple of them saw their convictions gradually overturned by 2020, and although an investigation was declared in 2021, it seemed to be bogged down. Then, on January 1st, 2024, millions of British TV viewers tuned into this brand-new primetime drama. As of right now, ITV reports that 9.2 million of them have watched it.

## Defective Accounting Software

Despite this significant public outcry, the business responsible for the software that sparked the scandal initially was left out of the story, i.e., that the fraudulent prosecution of over 700 Post Office workers was caused by Fujitsu’s defective *Horizon* software.

The scandal started when the Post Office introduced a new computer system named Horizon in 1999 to handle financial transactions at its branches. The system was developed by the Japanese company *Fujitsu*. When Fujitsu won the contract to install computer terminals in over 17,000 Post Office branches around the UK, it called it “the biggest non-military IT project in Europe,” designed to automate and simplify everything from selling stamps to paying pensions.

*So how did a Japanese company get a contract at the British Post Office?*

Long before the system was implemented, Fujitsu and the British government had a partnership. In the 1990s, Fujitsu had previously acquired *International Computers Limited (ICL)*, a British business that developed the Horizon programme.

Because it was government policy to purchase all computers larger than a specific size from ICL, the company was awarded multiple contracts by the UK government. As a result of ICL’s strong ties to the government, which frequently made it the only bidder for government contracts, the takeover gave Fujitsu an excessive amount of presence in the UK.

Fujitsu was awarded the post office contract, despite the system being riddled with bugs and technical flaws. These flaws included rounding errors, data corruption, and issues with synchronization between local and central databases.

Further, the software was ‘closed-sourced’ (proprietary software), i.e., the public is not given access to the source code, so they cannot see or modify it in any way. While it is common practice for governments to use closed-source systems due to security concerns (otherwise hackers and potential attackers can inspect the source code and find loopholes to attack the systems), it also results in inadequate logging and backup mechanisms that make it impossible to look into inconsistencies after they happen. As a result, it was difficult to independently verify the correctness of the accounts. Sub-postmasters frequently lacked access to thorough system logs and transaction logs, which made it challenging to question the software’s computations or pinpoint specific problems.

Even worse, the Post Office operated a “*presumption of guilt*” approach, which meant that sub-postmasters were accountable for any financial losses even if they had nothing to do with them. Since their contracts said they were liable for any shortages, several tried to use their own funds to make up the difference, which put them under significant pressure to prove their innocence and ultimately caused them to file for bankruptcy.

Others were wrongfully accused of stealing and making fraudulent financial statements; some of them were even imprisoned due to their alleged guilt.

## The Role of the Whistle-blower

*How much did the Post Office and Fujitsu know, and when? What is the role of the whistle-blower?*

Although the Post Office bears much of the guilt for how it handled the problem, both when Horizon affected its branches and after the software flaws were discovered, Fujitsu was also a major player in the controversy.

We know that the Post Office disregarded early allegations of inconsistencies and of sub-postmasters voicing doubts about the software, insisting that Horizon was accurate. This made it more difficult to address the software’s flaws and delayed their recognition. Was this ignorance or a deliberate cover-up of key evidence? Did Fujitsu know that its system had major bugs?

It has now come to light that it was a major cover-up and that both the PO and Fujitsu knew about the faulty Horizon system very early in its introduction.

In 2015, on learning that the BBC’s *Panorama* program was getting interested in the story and that the discrepancies may have arisen because sub-postmasters’ accounts could be **remotely accessed**, the Post Office threatened and lied to the BBC in a failed effort to suppress key evidence that was going to be aired in the *Panorama* program that would have helped clear postmasters in the Horizon scandal.

In fact, senior Post Office managers briefed the BBC journalists that neither their staff nor Fujitsu had remote access, stating that there was “*no functionality in Horizon for either a branch, Post Office, or Fujitsu to edit, manipulate, or remove transaction data*” and that it had found “*no evidence*” to suggest that convictions were unsafe. (Head and Robinson, 2024).

However, Mr. Bates, the real-life hero of the Hit TV program, had another card to play—he introduced a whistleblower, former insider Mr. *Richard Roll*, to the *Panorama* programme team.

Mr. Roll, who had worked for Fujitsu on the Post Office's Horizon computer system in the early 2000s, revealed accounts on the Horizon computer system could, in fact, be secretly altered, and that Post Office directors had been warned four years earlier that such remote access was possible. It was explosive testimony that could call into question the convictions of more than 700 sub-postmasters prosecuted on the basis of Horizon evidence, as the denial of the possibility of remote access underpinned the Post Office's legal position. (Head and Robinson, 2024).

Interestingly, it has now come to light that there was a report by consultants *Ernst and Young* that was sent to Post Office directors in 2011 warning that Fujitsu staff had "unrestricted access" to sub-postmasters' accounts, which "may lead to the processing of unauthorised or erroneous transactions."

From an ethical standpoint, was it the responsibility of EY to disclose this information to an independent government organisation, or the Minister responsible for the Post Office, when it knew that 700 false accusations had been made and people had gone to jail or committed suicide? This is a matter for the Ethics Committee of the *Institute of Chartered Accountants of England and Wales* (ICAEW) to deliberate on.

In a separate report, Ian Henderson, from the independent forensic accountants *Second Sight*, uncovered other evidence of miscarriages of justice at the Post Office. The Post Office threatened to sue him, saying he did not have the legal expertise to comment on prosecutions (Head and Robinson, 2024).

Despite all the legal threats and other obstacles, the Panorama program went on air in 2015. However, Mr. Roll's allegations were not picked up by the rest of the media, and his testimony did not spark the national outrage that has followed ITV's latest TV drama.

Still, Mr. Roll would go on to play a crucial role in a 2019 High Court case that showed that sub-postmasters' accounts could be remotely accessed and altered, and the Post Office and Fujitsu knew about this all along.

In fact, Fujitsu Europe director *Paul Patterson*, who faced a grilling by British MPs on the *Business and Trade Committee*, stated, "We were involved from the very start. We did have bugs and errors in the system. And we did help the Post Office in their prosecutions of sub-postmasters. For that, we are truly sorry." (PA News, 2024),

## Error or Fraud

In 2019, the British High Court ruled that the Horizon system was faulty, and in 2020 the government established a public inquiry. Courts began to quash convictions from 2020. As of January 2024, some victims are still fighting to have their convictions overturned and receive compensation.

*If the sub-postmasters did not steal the money, then who did?*

There may have been a minority that did put their fingers in the till, but it is most unlikely that 700 of them suddenly turned rogue. Conversely, Mr. Roll's revelations that sub-postmasters' accounts on the Horizon computer system could be secretly altered bring many other possible perpetrators into the picture.

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s a result of this, the *Metropolitan Police* is investigating the Post Office for potential fraud offences. The investigation seeks to determine the scandal's complete scope, pinpoint its perpetrators, and offer recommendations for mitigating similar injustices in the future. Its conclusions, which are anticipated later in 2024, have the potential to greatly alter the trajectory of events, as there may

yet be more information revealed regarding Fujitsu's involvement and the Post Office's handling of the incident as the public investigation into the matter continues.

## Is Horizon still used by the Post Office?

Yes, Horizon is still in use in UK post offices to this day (January 2024). One postmaster, who runs two post offices in the south-east of England and spoke to the BBC on condition of anonymity, said the system is still unreliable (King, 2024).

*"You still get shortfalls. You can't trust it. You can't rely on it." However, since the sub-postmasters won their court case in 2019, the Post Office is more likely to resolve significant disputes in the sub-postmaster's favour.*"

In a statement, Fujitsu stated that it was totally committed to helping the investigation so that it might gain knowledge from the events that occurred more than 20 years ago.

*"The inquiry has reinforced the devastating impact on postmasters' lives and that of their families, and Fujitsu has apologised for its role in their suffering,"* the company stated. (Stewart, 2024).

## The Cost of Abandoning the Cloud

Horizon is currently housed in two Fujitsu-owned data centres in Belfast. The plan to move the system to the vast network of data centres run by *Amazon* (the cloud) was announced in early 2022, and the Post Office awarded *Accenture* a £27m contract to assist with moving their IT systems onto the cloud, and a separate contract to work on the user interface for the new system.

However, later that year, the move to the 'cloud' was abandoned as the plan proved too difficult due to the age of Horizon and the complexity involved. As moving the programme proved too technically challenging and costly, the Post Office instead decided to extend support services for its current data centres. It is not clear if *Accenture* was paid any part of its £27m contract and what the deliverables were, but as this author has commented before, often consulting firms charge big bucks but give little value for governments (Ratnatunga, 2023).

The cost of abandoning this plan was £31m, according to the Post Office's latest accounts, published in December 2022 (Targett, 2024). Consequently, Fujitsu's products remain firmly established in the government's IT infrastructure, even in the wake of the Horizon incident. The business, which is the third-largest IT supplier to the UK government, was still landing fresh government contracts as late as September, which has infuriated several British MPs.

The Horizon contract was meant to expire in 2023, but the challenges of replacing it have been so great that it has been extended twice: for £42.5m in 2021, and again last year in two contracts worth £16.5m and £36.6m. These take the contract up to April 1, 2025, at a total cost of £95.6m. The Post Office justified the £16m contract extension, stating that *"program to transfer the services to a new cloud provider created fundamental technical challenges that POL [Post Office Limited] could not economically and technically overcome."*

Interestingly, for the financial accountants and IFRS aficionados, the Post Office's accounts also note that: *"A further impairment review at the cash generating unit ("CGU") level was performed during the year, resulting in an additional impairment of capitalised software costs of £115 million."*

In accounting terms, an impairment usually means that an asset that was once considered valuable has become less valuable, creating a loss for the business. Although the Post Office's cloud migration "impairment" writes off is the equivalent to 81% of its annual restructuring costs, King (2024) reported that the PO has not given the BBC any detail about how this loss had come about.

Modernising complex legacy systems is a fraught business, but writing off £31 million in a year for getting it wrong while continually funnelling tens of millions to the software provider that helped co-deliver a colossal miscarriage of justice is, arguably, a poor look for all concerned.

## Societal Impacts

The fact that more than 700 sub-postmasters were found guilty of crimes between 1999 and 2015 was a result of the defective Fujitsu accounting software which revealed (erroneously) that money was disappearing from their stores, had significant societal impacts.

Many sub-postmasters insisted on their innocence and said they had brought up the defective software issues with the Post Office several times, but the prosecutors did not think they were sincere, and some of them were sentenced to prison for fraud and false accounting.

This has had a significant societal impact, not only on the sub-postmasters and their families but also on the trust we place in our institutions in a civil society. The scandal's long-term effects are still being felt.

The Post Office's owner, the British government, has recently announced that steps are being taken to cleanse the names of hundreds of guilty sub-postmasters. It had previously stated that compensation of £600,000 would be extended to Post Office employees who had their bogus convictions for theft and false accounting overturned.

Ninety-three convictions have been overturned thus far. This included the Court of Appeal's April 2021 decision to overturn 39 postmasters' convictions in a single decision. Just thirty of the 93 convictions that have been reversed have consented to complete and final settlements. Several sub-postmasters are still battling to get their names cleared and receive full compensation.

The Post Office, to date, has paid out £85.98 million in compensation, and the European boss of Fujitsu has just stated that there is a "moral obligation" for the technology giant to contribute to the compensation (PA News, 2024).

No Post Office employee nor Fujitsu employee has been prosecuted over the case.

## Robodebt: An Australian Fiasco of Faulty Accounting

In Australia, a computer software-generated compliance program called '*Robodebt*' had a similar and significant societal impact. In this case, it was not flawed software but ***flawed financial logic*** that resulted in an incorrect algorithm. The Robodebt Compliance Program asserted that welfare recipients owed debts to the commonwealth on the basis of a number of assumptions, including using their annual income to estimate their average fortnightly income. People received letters saying they owed thousands of dollars in debt. More than half a million Australians were affected by the program.

The debt notices were initially automated and generated at scale from 2015, with the onus on welfare recipients to prove they did not owe a debt. Many whistleblowers came forward, warning the system was unfair, and in 2018, Prof. Terry Carney, a former senior member of the administrative appeals tribunal, warned that income averaging was not a lawful basis to establish a debt (Karp and Knaus, 2018).

The government admitted this in a federal court action in late 2019, abandoned the use of "*income averaging*," and settled a separate class action at a cost of \$1.8bn in Robodebts that were wiped or refunded (Karp and Henriques-Gomes, 2023).

As a result of this court decision, while in opposition, the *Australian Labor Party* promised a royal commission into Robodebt, which it established in August 2022 after it won office that May. The *Royal Commission* report released in July 2023 levelled strong criticism of the three former ministers and a senior public servant (Knaus, 2023)

Similar to the British post office case, Robodebt caused significant financial hardship for those who were the most vulnerable in society.

## Summary

In IT and accounting parlance, there is a familiar saying, “*Garbage in, Garbage out.*” This is used to express the idea that incorrect or poor-quality input will produce faulty output. However, in the case of the British Post Office and Australian Robodebt scandals, it was not poor-quality input but significant software errors and faulty algorithms that produced the faulty output. This in turn affected millions of individuals and our trust in the institutions of a civil society.

In the case of the British Post Office, the issue was faulty *financial accounting record-keeping*. In the case of the Australian Robodebt, it was a faulty *management accounting algorithm*. Mistakes do happen, but at what stage do we as professionals admit our mistakes or become whistleblowers for the greater good of a civil society? It is inconceivable that no professional accountant at the Post Office, Fujitsu, or at the many of the external firms that consulted was aware of the cover-up and the grave consequences of this for people’s lives.

It is up to us accounting professionals to ensure that there are enough safeguards in place to ensure such scandals are exposed early, rather than wait for a hit TV series to get such results.

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