

Hughenden Parish Council

Fraud report

15 May 2014

Please note.

This statement has been approved by Full Council following debate at Full Council on 13 May 2014. It is written in good faith and is believed to be true and accurate but without legal liability for any unintentional errors of fact or omissions.

1. Summary

- a. It is clear that the fraud perpetrated by the former Clerk, Mrs Turner, was premeditated and organised with small 'pilot' payments that grew into increasingly confident abuse of the Council's trust.
- b. It is our opinion that the fraud was able to happen due to complacency and inadequate controls that culminated at the end of the financial year 2010/11 in the approval of the accounts with known unexplained anomalies.
- c. However, there is nothing to suggest that any of the Council were aware of the fraudulent activity whilst it was going on.
- d. Councillors cannot be held legally liable for transgressions of the Council as a whole. It is therefore our view that there can be no legal liability attached to any previous or current Councillors for the inadequacies of the financial control and verification system.
- e. The fraud exposed the weakness of the previous reconciliation and audit system and these have been rectified.
- f. It is therefore our belief that other than ensure that the lessons are permanently learnt and that proper Council financial controls are recognised as an essential part of Council activity, there is nothing further that can or should be done in relation to the events leading up to the signing of the 2010/11 Annual Return or the lack of governance that allowed the fraud to start and continue.

2. Introduction

- a. In February 2013, Mrs Lynne Turner was sentenced to 6 months in jail for 10 counts of fraud whilst in her position as Clerk to Hughenden Parish Council. One count remains on file.
- b. The sentencing was the culmination of a police investigation that started in November 2011 following identification of irregularities on the Council accounts by Charlotte Watts who took over as Clerk following Mrs Turners resignation shortly after the May 2011 Council elections.
- c. This report has been produced following requests by parishioners for an explanation of:
 - How the fraud could have taken place.
 - The process of identifying and investigating the fraud.
 - The measures that have been put in place to avoid any potential for re-occurrence.

3. Background

- a. The Parish Council is made up of 15 Councillors representing 4 wards. All Councillors have equal status as far as Councillor responsibilities go, but a Chairman is elected each year to chair Full Council (FC) meetings and provide leadership for the Council.
- b. Three Committees operate under separate Chairmen – Finance and Admin (F&A), Environment and Services (E&S) and Planning.
- c. The F&A Committee oversees the Council's financial affairs as well as staff, policies, codes of conduct etc. However, the F&A can only recommend to FC. No decisions can be taken without FC approval which requires a majority vote at a FC meeting.
- d. The history of this case starts in 2003 when FC approved the setting up of an electronic bank account. This appears to have gone straight to FC rather than through the F&A as it was deemed necessary to enable the Council accounts to be more easily monitored. FC approved the use of electronic banking '*so that the accounts can be monitored and transfers between accounts made*'. (May 2003 Full Council Minutes)

- e. The Council was therefore under the impression that no electronic payments could be made from HPC accounts.
- f. Electronic banking is still not permitted under the Local Government Act although it would appear that many Parish Councils use it. The Government has published draft Regulations that will permit electronic banking very shortly.
- g. The Minutes of the FC meeting that authorised this on 10 June 2003 suggest that the Council was convinced that as electronic banking would not be used to make payments, it was not breaching that constraint.
- h. However, meetings with the Council's bank (HSBC) since the event have made it clear that this control is – and was - not possible under their electronic banking system.
- i. It seems clear, therefore, that since September 2003, the Council operated with electronic banking that permitted electronic payments to be made by the Clerk.
- j. However, whilst clearly this creates an opportunity for fraud, the Council's own monitoring and reconciliation process should pick up any erroneous payments. This occurs on a monthly basis, normally at the end of each FC meeting.
- k. In conclusion therefore, since 2003, the Parish Council accounts have been open to fraud but only in a way which should have been immediately picked up through normal monthly reconciliations.

4. The Clerk

3.1 Overview

- a. Every Parish Council employs a Clerk who, in nearly all cases, is deemed the Responsible Financial Officer.
- b. The Clerk has a duty to ensure that the Parish is run legally and within relevant Guidance and must therefore ensure they fully understand all the necessary requirements laid down by legislation and national Government guidance. However, they do not run the Council and Councillors have legal responsibilities for discharging their duties in a democratic and effective manner.
- c. One of the Clerk's primary duties is to manage the Council finances, ensuring that contractors and staff are paid and that monies are correctly received and banked in relation to the Precept – provided by Wycombe District Council – and revenues from the Garden of Rest and allotments.
- d. Hughenden Parish Council has one of the largest parish budgets in Wycombe District Council, amounting to some £170k per annum.
- e. The Clerk is responsible for the proper administration of the Council's financial affairs, but other than petty cash, should be unable to make any payment without the approval of FC and without two Councillor signatures.
- f. The Clerk is employed by the Parish Council under Parish Council terms. The principle is that the Parish Clerk is effectively the Chief Executive whilst the Councillors are the Board. Councillors are voluntary and come and go; the Clerk's position is of a normal salaried employee.
- g. The Clerk and Deputy Clerk have to keep the wheels turning, so manage all the day to day elements of the Council's responsibilities and advise Councillors of their duties and responsibilities. The Councillors provide authority and guidance to that role. The relationship

should be balanced and workable. Too much Councillor interference and the Clerk becomes bogged down in bureaucracy, too little and the Clerk becomes virtually autonomous.

3.2 Mrs Turner

- a. Mrs Lynne Turner had been HPC's Clerk since 1996. It appears that she had full control over the internet banking from its start in September 2003.
- b. 2010 was a highly charged year for HPC with the issues surrounding Rural Affordable Housing creating strong tensions between the Council and the community and internally within the Council.
- c. When the May 2011 elections saw the majority of Councillors being voted out, Mrs Turner was left with a new Council consisting of many of the parishioners who had reacted so strongly to the RAH issues and with a new Chairman that had been one of her fiercest critics as a Councillor in the previous administration.
- d. In June 2011, Mrs Turner chose to resign and left the Council in July 2011 having secured a new job as Clerk to Chepping Wycombe Parish Council. At that stage, there was nothing irregular although it was clear that there were some historical tensions that were thought to be the reason for the resignation.
- e. A new Clerk – Charlotte Watts – was taken on who started in mid-September. Although Mrs Turner had long since left, she appeared to be unwilling to help Charlotte to find her feet and was reluctant to come into the HPC office. This support phase included very little explanation of the finances as it was clear to Charlotte that Mrs Turner was not confident with the system.
- f. Charlotte therefore had to get external training on the Council's financial management system – RBS – to enable her to manage the accounts. This was when the fraud was discovered.

5. The accounts

- a. HPC has an annual budget of around £170k. This is spent on a wide range of requirements such as staff, play equipment maintenance, hedges and verges, the Garden of Rest etc.
- b. In recent years, the accounts have been run using a specialist Finance Package called RBS.
- c. All transactions are recorded on this and allocated to a specific cost centre.
- d. Every payment must have either an invoice or an explanation sheet that has an accompanying 'pink slip' explaining the reason for the payment and showing the amount.
- e. RBS provides a reconciliation of the accounts to ensure that all payments and receipts are recorded and that the balance corresponds to the bank account.
- f. HPC hold 4 separate bank accounts.
 - i. HSBC Account 1 is the current account that is used for all payments and receipts.
 - ii. HSBC Account 2 is the high interest account that is used to feed account 1. The precept goes into this account and transfers can be made electronically to Account 1.
 - iii. HSBC Account 3 is the Imprest Account which is used for Petty Cash Withdrawals by the Clerk.
 - iv. NS&I Account 4 is used for reserves. This can only be accessed through written request signed by two Councillor signatories.
- g. Accounts 1, 2 and 3 can all be accessed electronically, both for statements and for transactions.

- h. HSBC does not have a dual key system to ensure that two people have to login to gain access.
 - i. To access the account requires a standard HSBC passkey. There is only one of these held by the Council that allows full access to the Council accounts. To provide a dual key process, this is held by the Chairman of the Council with the Council Clerk holding the access password. To now perform any financial transactions on the account therefore requires the presence of both the Clerk and the Chairman of the Council. However, this system has only recently been instigated.
 - j. In the event that the Chairman is scheduled to be away for an extended period, the passkey will be passed to the Chairman of F&A Committee; in the event that both are away, it would be passed to another Councillor who is one of the four authorised cheque signatories.
6. Accounts management process
- a. There are two methods of payment:
 - Cheques
 - Electronic payment
 - b. Payment by cheque is the standard process that is used for all normal payments. Online banking is only used to set up Standing Orders and Direct Debits and transfers of funds from Account 2 to Account 1 or 3.
 - c. All payments are made from Account 1 by cheque. These must be signed by two authorised signatory Councillors and will only be paid for services that have been approved by Full Council.
 - d. Each month, there is a reconciliation whereby two authorised signatory Councillors – normally the Chairman and Vice-Chairman – will sign each cheque along with the relevant pink slip, invoice, cheque book stubs and Agenda entry. This ensures that no cheque is paid for any item that does not have approval.
 - e. At that reconciliation, cheques that have been drawn against Account 1 are also checked with chequebook stubs.
 - f. This ensures that cheques are fully verified by at least two Councillors all the way through the process.
 - g. All payments are entered by the Clerk under the relevant budget heading onto the RBS Finance Management system which is therefore a full record of all payments. The RBS total and the bank statement are reconciled by the Chairman and a second Councillor to ensure that no payments have been recorded onto the system that have not been authorised.
 - h. For electronic payments, the bank statement is checked against known Direct Debits and Standing Orders. As previously mentioned, no DD or SO can be set up without both the Chairman of the Council and the Clerk being present.
 - i. Where there is a need to transfer funds from the high interest Account 2 to current Account 1, this again can only be done when the Chairman and Clerk are present. This will happen regularly as the current account requires a top up.
 - j. Where the Imprest Account requires topping up to enable cash withdrawals to be made by the Clerk, again, the electronic transfer can only be made when the Chairman and Clerk are present.
 - k. The Clerk and Deputy Clerk require cash to buy sundry items such as stationery. The Petty Cash tin is topped by a cheque made out to cash signed by one Councillor and countersigned

by the Clerk on cashing the cheque at the Bank and is limited by the amount in the Imprest Account which is never more than £2000.00. The Clerk has delegated authority to incur expenditure without prior approval up to the value of £200 and may also incur expenditure up to £2500 where failure to do so would constitute a breach of the Council's statutory or legal obligations but only with prior approval.

- l. A Petty Cash book shows the amounts that have been spent which is reconciled against the amount held in Petty Cash and the amount withdrawn.
- m. In summary, therefore, the current system:
 - Ensures that no electronic payments can be made without the Chairman and Clerk present.
 - Ensures all payments are fully verified by two Councillors save for the Imprest Account which requires verification by one Councillor and the Clerk .
 - Ensures full reconciliation between all accounts, petty cash and the RBS accounting system.

7. Where did it go wrong?

- a. In 2003, the Full Council Minutes in May and June show that Electronic Banking was to be considered and was then approved.
- b. June 2003 Minutes – *'Update on computer connection for monitoring of bank accounts. Cllr Harris reported that it could be set up in such a way so that the accounts can be monitored and transfers between the accounts can be made. On this basis, it was proposed by Councillor Harris, seconded by Cllr Davies and UNANIMOUSLY RESOLVED that the Clerk should change to this way of banking.'*
- c. Recent discussion with HSBC indicates that this could not have been set up in such a way as to only allow monitoring or transfers between accounts and that payments would have also been possible from the start.
- d. It is known that Mrs Turner used online banking to pay her own salary. This was changed to a Standing Order system under the new Clerk, Charlotte Watts. Direct Debits were also set up using the online facility.
- e. It is assumed that the monthly reconciliation process would have thrown up any anomalies and any incorrect payments would therefore have been quickly spotted although of course, that would not have prevented incorrect withdrawals or payments being made.
- f. Discussion with Councillors who have been involved with the accounts from that date suggest that the monthly reconciliation process was methodically applied and there is no reason to doubt that until 2010, this took place and would have spotted any unauthorised payments.
- g. Analysis of 2009 and 2010 accounts was carried out by Charlotte Watts in the weeks following the discovery of the fraud with no sign of any irregularities appearing.
- h. We therefore come to the period leading up to the discovery of the fraud.
- i. The timeline of events relating to the discovery is as follows:
 - i. 1st November 2011 during RBS training, the new Clerk, Charlotte Watts, identified £21900 that could not be accounted for which was coded 'cash in transit'.
 - ii. Queries were made to Mrs Turner who was unable to provide an explanation.
 - iii. Further investigation produced an additional £6000 of unexplained 'Corrections' that had been transferred electronically from Account 1 from 1 April to 27 May

2011. No pink sheets or invoices were initially found that related to these payments and the bank confirmed that these payments had gone to Mrs Turner’s private account into which her salary was also paid. Charlotte did subsequently find pinks for the fraudulent payments which detailed each individual transaction as being a “transfer” which highlights the planned nature of the fraud.

- iv. Further investigations with the bank showed that she had electronically paid a total of £28,200 into her account. This had started in August 2010 with occasional payments of £300 and then from October, payments of £1000. The most prolific month was October 2010 when £6300 was taken.



- j. At no stage was Mrs Turner able to give any explanation for the amount missing and consequently, the police were informed on 24th November and their investigations started.
- k. In subsequent discussion with the then Chairman of the Council and the Finance and Admin Committee since the trial, it appears that Mrs Turner successfully persuaded the Council to waive the requirement for her to undertake monthly bank reconciliations during that period because her stress meant that she was behind in her work and not able to cope with doing everything properly.
- l. It appears that she was making entries into RBS to ensure that it corresponded with the bank statement, but the bank statements did not seem to be checked to explain any payments made.
- m. The new Council took over following the 5th May elections. The last action of the old Council was to sign off the Annual Financial Report.

8. 2010/11 Financial Report

- a. One of the more complex issues surrounding the fraud was the corporate governance issue.
- b. The Council is legally required to provide an Annual Return to the Audit Commission which must show the income, spend, creditors, debtors, savings and assets.
- c. The Council accounts must undergo an internal audit following 31st March closure of the period accounts. The internal audit requirements required of a Parish are minimal and in the case of HPC, seem to have been somewhat cursory.

- d. Random selection of transactions would have been made, but only on a small scale and it would seem that there was no full reconciliation of all balances.
- e. Following the audit, the then F&A Committee had a meeting on 26th April – the last of the ‘old’ Council – to verify the accounts prior to an intended Extraordinary Council Meeting that was to take place on the 5th May, the day of the elections.
- f. At this meeting, the Clerk presented a Balance Sheet that showed that there was a shortfall of £21,900 due to ‘cash in transit’.
- g. It is understood that the Clerk was questioned on this and agreed to provide a full explanation for the proposed ECM. On that basis, the Minutes show that *‘It was then unanimously resolved to Recommend to Full Council that the un-audited accounts be accepted by the Parish Council...’*
- h. The ‘un-audited’ refers to the External Audit that the accounts undergo once the Annual Return sheet is completed. However, all an External Audit does is sign off the accounts on the assumption that the internal audit will have found any errors.
- i. At the ECM on 5th May, Chaired by the Chairman of the Council, Mrs Ewart and without the Chair of the F&A committee who was unable to attend, a revised Balance Sheet was presented by Mrs Turner that no longer had the £21,900 separated out, but had included it in the current account balance. This was then signed off by Mrs Ewart.
- j. The Balance Sheet also showed that the current account (Account 1) contained £25,196 (up by £21,900 from the 26th April) as at 31st March. The bank statement shows that this account actually held £11,133 but Mrs Turner had also deducted debtors rather than showing these as a separate item.
- k. The Annual Return therefore included the £21,900 in the assets which again, was signed off by the Chairman.
- l. It is understood that Mrs Turner claimed that that £21,900 related to cheques that had been received and banked since the meeting of 26th April.
- m. In summary, therefore, the following errors seem to have occurred.
 - i. The bank statements did not appear to have been reconciled with authorised payments from August 2010 to May 2011.
 - ii. The clerk appears to have had complete on-line access to Account 1 without any form of accountability from 2003.
 - iii. The internal audit system was seriously flawed.
 - iv. The final ECM did not reconcile the balance sheet with the bank statements.
 - v. The ECM allowed the Chairman to sign off a Balance Sheet that showed an incorrect total of cash in accounts.
 - vi. The Chairman then signed off the Council Annual Return with an incorrect total of accounts.
 - vii. There was also no handover between the old and new Councils. The new Council was completely unaware of the queried £21,900 and had no reason to believe there was anything suspicious.
- n. However, we must also accept that the new Council were not as rigorous in its early days as it is now nor as it should have been. Indeed, the internet banking facility continued to be used to set up the new Clerk’s pay in September.
- o. £3,000 was taken after the 5th May and this was not picked up in the first reconciliation carried out after the Council was formed.

- p. This was due to naivety and believing what was put in front of a new Chairman and Vice-Chairman which at that stage, was just the cheques that required signature.
 - q. Proper reconciliation started soon afterwards that would have at least identified any unapproved payments from the bank statements. After May, the thefts stopped and it is assumed this is because Mrs Turner realised that there would be more scrutiny under the new Council. Shortly afterwards, she resigned.
9. What is the position now?
- a. Once Mrs Turner had left and the new Clerk started, a more formal process of monthly reconciliation was applied.
 - b. When the fraud was discovered, attempts were made with HSBC to apply a dual key system, but HSBC were unable to provide this. Despite investigation into other banks, at the time, this was not available anywhere.
 - c. The Clerk and Chairman, Tony Konieczny, therefore put in place a text system whereby the bank would automatically text the Chairman if there was any internet payment from the accounts.
 - d. This was supported by a monthly reconciliation process that checked that all payments were authorised and supported by the necessary documentation, that the RBS system reconciled with the bank statement and that the bank statement showed no unauthorised payments.
 - e. The inadequacies of the internal audit system were also identified and for the 2012 audit, a professional auditor was appointed who was briefed to carry out an intensive audit of the accounts. This goes well beyond Audit Commission requirements, but is considered essential by the Council.
 - f. Under the new Clerk, the internet banking system is now secure with the Clerk unable to use the facility without the passkey present.
 - g. The monthly reconciliation process remains robust and is now subject to a full sign off process with a sheet for each reconciliation that must be signed by those present.
 - h. Following the discovery of the fraud, consideration was given to removing the internet banking facility. However, this would have removed the ability to be able to manage rapid payments when needed as well as the ability to monitor the account electronically.
 - i. The internet account therefore continues but with controls that the Council believes are appropriate and robust.
 - j. The need for these controls has been highlighted by the Council's insurance position.
 - k. A claim was submitted for loss due to criminal activity to the Council's insurers, Fidelity.
 - l. After investigation and extensive discussion with the Clerk, this was rejected due to the lack of appropriate controls which was a condition of cover. Their view was that had appropriate controls been in place, the theft would have been discovered straight away.
 - m. Our insurers have confirmed that the audit controls we now have in place are appropriate so that if a future fraud was to incur any loss should be made good.
 - n. The Courts initially applied a Criminal Compensation Order against Mrs Turner for the sum of £12,388. Mrs Turner has paid the sum of £8695 but the Courts have deemed that she should pay no more under the confiscation order due to her financial position.
 - o. The Council has therefore resolved to recover the money through the courts and civil proceedings for the balance of the amount she stole amounting to £19504.86 plus costs and interest have now been issued against her.