

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

1. As an Executive Agency of the Treasury Solicitor's Department, the Government Property Lawyers provided conveyancing and land advisory services to government departments and other publicly funded bodies in England and Wales. These services included purchases and sales of land and buildings, sales of surplus land and the negotiation of commercial leases for office occupation. During 1997-98, the Agency accepted over 3,500 new instructions from its clients and completed over 4,200 transactions. The Agency received £301 million from clients and disbursed over £318 million on their behalf in the year.
 2. As stated in Note 19a to the financial statements, during May 1998, the Government Property Lawyers discovered that one of its solicitors, who was responsible for the conveyancing of property for a major client, had misappropriated his client's funds in nine cases between July 1989 and May 1998.
 3. The fraud took three main forms. First, in 1989, by taking advantage of the client's administrative error in issuing a duplicate cheque in favour of the property vendor's solicitor, the offender was able to open a building society account in the name of the solicitor, but under his control, and steal £70,000. Secondly, over a nine-year period, by abusing an arrangement whereby clients made out cheques in the name of the vendor's solicitor, the offender was able to open a building society account in the name of the payee, from which he obtained interest on the amount deposited. Thirdly, by exploiting a control weakness that allowed him to authorise payments to vendors' solicitors with no countersignature and by abusing a practice common in conveyancing matters, whereby a client pre-funds its solicitors with the cost of a purchase, the offender was able to gain unlawful access to those funds. Under the latter two arrangements, the offender diverted and invested over £1.2 million of the client's money into the building society accounts in the name of two firms of vendors' solicitors, but which he controlled.
 4. When the fraud was discovered in May 1998, there was a shortfall of an estimated £277,000 that, with the earlier theft of £70,000, has been disclosed as a fraudulent use of £347,000 of client funds in Note 4 to the financial statements. In addition, it has been calculated that the theft and fraudulent investment of funds had cost the Consolidated Fund about £195,000 in lost interest, making a total loss of some £542,000 as reported in Note 19(a). The discovery of the fraud was reported immediately to the police and, following their inquiries and subsequent criminal proceedings, the offender was sentenced to two 30-month prison sentences, to run concurrently.
5. The Agency responded to the misappropriation by:
- taking out an immediate court injunction for £250,000 on the offender's known assets to protect its interests;
 - examining fully all the cases handled by the offender over the period 1989 to 1998, to ensure that it has identified and reviewed all possible cases from which he could have stolen money;
 - reviewing a large sample of cases chosen at random, and satisfying itself that other members of staff had not perpetrated a similar fraud;
 - taking immediate steps to require two signatories for all 'Request for Payment' forms sent to the Finance Department;
 - stopping the acceptance of 'in favour of' cheques except with Group Director authorisation;

- obtaining written bank account details from the vendor's solicitor to ensure that client moneys are paid into that account and not any other account; and
- pursuing the offender for recovery of the stolen money.

6. Since the fraud was discovered, the Treasury Solicitor obtained a court judgement for damages and has also investigated the fraudster's financial affairs from 1989 to:

- ascertain the full extent of the amount taken, which will be entered as damages in the judgement; and
- identify what assets remain available against which the judgement for damages might be enforced.

This investigation identified that the fraudster had paid further receipts of £137,000 into his false building society accounts over the period of the fraud. Although there is no immediate evidence to prove that these sums were part of the fraud, this possibility cannot be ruled out.

7. In 1998-99, the Consolidated Fund provided £347,000 to the Treasury Solicitor to enable the Department, which was responsible for the Government Property Lawyers, to repay the Agency's client.
8. HM Treasury has been notified of this fraud under the normal reporting arrangements.
9. The Government Property Lawyers Agency has also been subject to a quinquennial review of its activities. In the light of this review, the Attorney-General decided in November 1998 that there was no longer a requirement to maintain a central conveyancing and lands advisory service to government departments and agencies and other publicly funded bodies in England and Wales. Accordingly the Agency was closed down in September 1999 and the financial statements have been prepared on the basis that the Agency is no longer a going concern. The financial statements for 1997-98 include a provision of £10 million for the cost of closing down the Agency.

John Bourn Comptroller and Auditor General 25 May 2000	National Audit Office 157-197 Buckingham Palace Road Victoria London SW1W 9SP
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THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 20 to 37 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24-26.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 14 the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. However, those statements were finalised after the Agency had closed and its Chief Executive had left the Civil Service, and have therefore been signed by the Treasury Solicitor. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them and to report my opinion to you.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming my opinion, I have considered the adequacy of the disclosures in Note 19(b) to the financial statements which state that the financial statements have been prepared on the basis that the Agency is no longer a going concern and which make provision for the estimated costs of closing the Agency. My opinion is not qualified in this respect.

Unqualified opinion on the presentation of the financial statements and qualified opinion on the regularity of expenditure

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Government Property Lawyers Agency at 31 March 1998 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and with the directions made thereunder by the Treasury; and
- except for the recognition as expenditure of the fraudulent loss of a client's funds, estimated at £347,000, in all other material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of this fraud are set out in my Report.

John Bourn

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Comptroller and Auditor General

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25 May 2000

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