



HOUSE OF COMMONS

LONDON SW1A 0AA

Mr W. Michael  
Chairman  
KPMG  
64 Great Eastern Street,  
London EC2A 3QR

13<sup>th</sup> June 2018

*Dear Mr. Michael*

**The All Party Parliamentary Group on Fair Business Banking and the Project Lord Turnbull Report**

The All Party Parliamentary Group on Fair Business Banking supports the UK banking industry in balance with looking after constituents' interests. You will be aware that we have a copy of the Turnbull Report; we believe that it is significantly in the public interest to publish the document. We are writing to you as KPMG features heavily in the report.

We are of the view that the ongoing questions and concerns with regard to the presence and content of this report make it imperative that it is fully investigated.

**Michael Bancroft and the Project Lord Turnbull Report**

The APPG was recently sent a copy of the Project Lord Turnbull Report by Michael Bancroft, who is currently serving a substantial sentence for frauds which he committed with two HBOS managers, Lynden Scourfield and Mark Dobson.

Referring to the report, I told the Commons that I had received previously unreleased documents which examined the bank's reaction to a fraud at their Reading branch. MPs heard that, according to the report, senior managers were aware of the fraud prior to Lloyds's 2008 takeover of HBOS but action was taken to cover up the fraud. I referred to individuals "named as culpable for non-disclosure" in the report before calling for an investigation into "serious concerns" raised against Lloyds and HBOS.

I said; "I have recently been sent by one of those convicted, Mr Michael Bancroft, ... hitherto unreleased documents – including the Project Lord Turnbull report, authored by Lloyds senior manager Sally Masterton, which alleges that senior managers within the bank were aware of the fraud prior to the takeover and the £14bn Lloyds and HBOS rights issues, yet they took clear, deliberate and documented action to conceal it."



“Let’s be clear, if true, this would potentially make both rights issues and the takeover fraudulent. Those named as culpable for non-disclosure in the report include chief executive Andy Hornby, chairman Sir Dennis Stevenson, former CEO James Crosby, corporate CEO Peter Cummings and auditors and reporting accountants KPMG.”

I added: “Seniority, status or background cannot be a barrier to justice and to holding those to account who are ultimately responsible for the devastation caused to so many lives and to the wider economy.”

I went on; “The Project Lord Turnbull report raises significant questions – was there a deliberate concealment of the scale of the fraud within HBOS and Lloyds? Who was party to the concealment? Did the concealment crucially result in significant loss to bank shareholders and to subscribers to the rights issue? We see conflicts of interest in the report and in many other places – KPMG auditors giving HBOS a clean bill of health in February 2008, only a few months before its collapse.”

“The audit watchdog, the Financial Reporting Council (FRC), seeing no reason to investigate this audit... The fact that four of the ten members of the FRC board are partners at KPMG and that it is chaired by former Lloyds chairman, Sir Win Bischoff, who oversaw the £14bn rights issue... Our all-party group sets out clearly what steps we now need to take.”

I added that the only way to resolve the “deep-seated cultural problems in our banking sector and to remove these conflicts of interest so prevalent is by way of a full public inquiry”.

### **The Report**

The report is dated 2013, and its full title is as follows: "PROJECT LORD TURNBULL - OPERATION HORNET". The report was written by Lloyds employee Sally Masterson, and says this about its genesis; “Sue Harris, Group Audit Director, requested this report.” It appears then, on its face, that the report was drafted at the behest of a senior individual at Lloyds.

As you will be aware, Operation Hornet is the investigation conducted by Thames Valley Police which led to the jailing of Messrs Scourfield and Dobson and four of their co-conspirators for fraud. As you will also be aware, Operation Hornet is still ongoing and I understand there is a likelihood of further charges to follow.

On its second page the report carries this quotation from Peter Hickman (described as HBOS Group Risk Director) and is dated February 2008; "Anything we can do to widen the gap will help the Audit Committee not to disclose, and that is something we seriously don't want to do especially at this moment". By "this moment", Mr Hickman was clearly referring to the imminent acquisition by Lloyds TSB of HBOS, and his aim was clearly to prevent the frauds coming to light before that transaction was completed.



By the "Reading Incident", Ms Masterson was referring to the extensive criminality which was committed primarily at the Reading office of HBoS, but has subsequently emerged, was also conducted out of its Bishopsgate office. Ms Masterson says this: "At a basic level, if the Reading Incident had been properly disclosed in 2007 Annual Report and Accounts then it is unlikely that the Rights Issue would have been capable of proceeding and irrespective of whether the Government stepped in or not at that time to prevent the collapse of HBOS, it is unlikely that a solvent acquisition by Lloyds TSB would have occurred".

### **A summary of the report's findings**

The executive summary of the report makes the following points:

- *"Proper disclosure of the Reading Incident in July 2007 would have rewritten history for HBOS, Lloyds TSB and the Government."*
- *"HBOS should have been a gone concern in February 2008. It was hopelessly insolvent by July 2008."*
- *"The strategy since July 2007, and possibly from 2005, has been to conceal the Reading Incident."*
- *"Concealments set in motion a course of events that has had and continues to have far-reaching and very serious consequences, extending to the Lloyds TSB takeover. LBG is significantly exposed"*
- *"Substantial loss has been caused to HBOS ordinary shareholders (to July 2007), the subscribers to the HBOS 2008 Rights Issue (£332m) and to Lloyds TSB shareholders (£14bn) as a result of the actions of those involved. Compensation due to HBOS customers who were directly affected by the Reading Incident may be significant."*
- *"This report explains the rationale to the decision made to conceal and those who are known or suspected to have been involved"*
- *"HBOS' high-risk business strategy, non-recognition of distress and avoidance of impairment, liquidity, Tier 1 Adequacy, creation of an artificial market, Basel II and non-disclosure of the Reading incident are all inextricably linked."*
- *"They were inextricably linked before the start of the financial crisis."*
- *"Deliberate non-disclosure of the Reading incident in 2007 financial statements fundamentally added to the crime, and from that point on the deficit escalated as the financial crisis deepened."*



- *"There is evidence of unfair and non-compliant treatment of customers."*
- *"The FSA was knowingly and recklessly misled."*
- *"However the FSA influenced the Rights Issue without appropriate due diligence."*
- *"There was a significant deterioration in the Corporate Stressed Portfolio prior to the closing of the Rights Issue in July 2008."*
- *"The Lloyds TSB Circular and Prospectus and the HBOS Prospectus in November 2008, and the December 2008 Supplementary Prospectuses, do not disclose the known stressed cases in HBOS Corporate at the time, which at 30 November 2008 totalled £40bn."*
- *"Lloyds TSB had evidence of the Reading Incident in October 2008, and was otherwise involved."*
- *"There would appear to be tacit impunity for the serious crimes of the directors, KPMG and PwC."*
- *"All those involved have condoned criminality and injustice."*

### **The significance of the Report**

The report is a detailed and substantial document running to some 200 pages. It is plainly the product of a great deal of careful research and investigation which has been undertaken by a Lloyds Banking Group employee over a period of several weeks – if not months.

The author of the report either had or was provided with extensive access to a plethora of key internal information and documentation which is referenced and/or quoted in great detail. These include internal reports, board minutes, auditors' reports, internal emails, communications between the bank and such regulators as the FSA communications to shareholders, key letters from the most senior officers of the bank and numerous other significant internal documentation. The erudite and informed content of the report also suggests that author has an excellent knowledge both of the banking practices at Lloyds, but also the relevant regulatory and legal background.

The report was apparently authorised at a senior level within Lloyds, and consequently, for that reason, carries considerable weight. Furthermore, it was prepared with a view to it being made available to the Thames Valley Police as part of Operation Hornet. It is therefore a document of very substantial significance in circumstances where Lloyds itself, according to Thames Valley Police, has exhibited regrettable reticence in opening itself up to public scrutiny concerning its actions, and its long period of denial of wrongdoing either at its Reading office or elsewhere.



### **The accuracy of the Report**

The accuracy of the report can also be tested by both subsequent events and other corroborative material which has come into the public domain. We refer the sections of it which deal with the treatment by Lloyds of Paul and Nikki Turner, the report correctly recounting the grave and distressing wrongdoing to <https://www.bbc.co.uk/programmes/b0b4zkrvich> this couple were subjected along with the financial and personal impact that such wrongdoing had on them; something which your bank only finally acknowledged late last year, some four years after the report was completed.

There are a number of other sections where allegations of criminality are made against Lynden Scourfield and Mark Dobson, both of whom were found guilty of offences of dishonesty. Lloyds has itself belatedly corroborated a number of the key findings of the report. You said this after the guilty verdicts; "Now the trial is concluded we would like to express our deep regret and apologies to any customers who were directly affected by the criminal behaviour of these individuals....We are now able to take action to review the cases of all those who may have been affected and, where appropriate, to ensure they are fairly recompensed."

### **The allegations made in the Report against KPMG**

The report makes some serious allegations against KPMG at pages 91 to 102. They are summarized at page 92 as follows; "Such has been KPMG's conduct that there is evidence to support conflict of interest, compromise and a lack of audit impartiality. KPMG have not just been negligent but their direct involvement in a number of material malpractices and violations regarding HBOS exposes them to claims in relation to misconduct, serious dereliction of duty and breach of regulatory and statutory duties."

In particular the report alleges that by February 2008 KPMG:

- Knew that the Reading Incident should have been disclosed;
- Knew that disclosure of the Reading Incident was potentially fatal to HBOS;
- Knew that shareholders and investors were being deliberately misled.

### **The purposes of this letter**

The APPG is strongly of the view that the public interest would be served by the report being made available for public scrutiny notwithstanding its self-description as "Highly Confidential". This is especially because the Lloyds Banking Group owes its continued existence to the investment in it of public money. It also appears appropriate to the APPG that the report be seen by all Lloyds investors and stakeholders.



The APPG has received advice from Keystone Law that publication of the report would be protected by paragraph 4 of the Defamation Act as a publication on a matter of public interest. As proscribed persons within the APPG and having been contacted by Sally Masterton, author of this report, we do feel this is in the public interest and that we are required to act. We will, therefore, aim to publish the Project Lord Turnbull Report in accordance with the Public Interest Disclosure Act within seven days.

We invite KPMG to provide us with any statement which you would wish to accompany the placing of the report into the public domain. May we suggest that we be provided with a copy of that statement by no later than 20<sup>th</sup> June.

I look forward to hearing from you.

*Kind regards*

Kevin Hollinrake MP