



Bob Neill MP
Chair, Justice Select Committee
House of Commons
London
SW1A 0AA

3 July 2019

SFO INVESTIGATION OF SERCO AND G4S GOVERNMENT CONTRACTS

Dear Bob,

I write to advise you that the Serious Fraud Office (SFO) has completed the investigations into Serco, and continues to investigate the conduct of G4S under the historical 'tagging' contracts with the Ministry of Justice (MoJ). Whilst no conclusion has been reached in relation to G4S at this stage, the SFO and Serco will announce today that a Deferred Prosecution Agreement (DPA) has been agreed between them (subject to approval by the court on Thursday 4 July 2019).

The DPA, once entered into, suspends the prosecution of a Serco subsidiary company for criminal offences of fraud and false accounting for a 3-year period, as long as the company meets certain conditions.

The draft Statement of Facts that Cabinet Office has received from the SFO, which will form part of the DPA, admits certain wrongdoing by a now-dormant subsidiary company of Serco with regard to mis-statement of contract profits. The company will pay a fine of £19.2 million and the SFO's costs, and be subject to some further monitoring actions. The DPA does not cover potential future prosecutions of individuals previously employed by Serco.

The financial impact of mis-statement was covered by the settlement entered into with the MoJ in 2013.

The Cabinet Office has received assurances from Serco that proper and comprehensive action was taken by them in respect of these matters as part of Corporate Renewal, and that Serco is operating in accordance with appropriate standards in respect of the conduct of current contracts.

While the DPA does not lead to a conviction of the company, contracting authorities have to consider whether the admitted behaviour is sufficiently serious to justify grounds for exclusion from procurements under the Public Contracts Regulations 2015 (PCR2015), and other public procurement regulations.

Considering early results of contract audit work, feedback from the SFO and representations from Serco, the Cabinet Office is content that the remedial actions taken in 2013-14 were sufficient with regard to this incidence of wrongdoing, and that any further action, including discretionary exclusion, is not currently appropriate for current MoJ projects such as the Prison Operator Framework. The framework provides the MoJ with grounds (under regulation 57 of the PCR2015) to exclude bidders from future competitions.

I am happy to make my officials available to brief you and the committee about this if you wish.

ROBERT BUCKLAND QC MP

Email message from Charles Carr, Serco Group, to the Chair, dated 3 July 2019

Conclusion of Serious Fraud Office investigation into Serco companies and proposed Deferred Prosecution Agreement with Serco Geografix

I wanted to write personally to ensure that you were briefed on the conclusion of the 6–year investigation by the Serious Fraud Office into Serco companies in connection with the contract with the Ministry of Justice to provide Electronic Monitoring. The investigation has concluded with a Deferred Prosecution Agreement (DPA) between the Serious Fraud Office and Serco Geografix Ltd (SGL), one of Serco’s UK subsidiaries, which will be submitted to a public hearing on 4th July. Under the DPA, SGL is taking responsibility for offences of fraud and false accounting committed between 2010 and 2013.

A DPA is an agreement that allows a prosecution to be deferred for a defined period – in this case for three years – provided the organisation meets certain specified conditions. If the company concerned abides the terms of the DPA, at the end of the defined period, the charges lapse. Introduced in 2014, DPA’s have been agreed with four companies, including Tesco and Rolls Royce; they are only offered to companies that show substantial cooperation with the investigations and the SFO.

As Rupert Soames, Serco Group Chief Executive, says in our announcement: “Those of us who now run the business are mortified, embarrassed and angry that, in a period between seven and nine years ago, Serco understated the level of profitability of its Electronic Monitoring contract in its reports to the Ministry of Justice. Serco apologised unreservedly at the time, and we do so again. Nobody who sat on the Board of Serco Group, or who was part of the Executive Management Team at the time these offences were committed, works for the Group today.

“Over the last six years we have worked extremely hard to regain the trust and confidence of Government, implementing in its entirety a Corporate Renewal Programme which was approved by Government and which has helped us to transform our corporate culture, processes and governance. The management and culture of Serco, and the transparency with which we conduct our affairs, have changed beyond all recognition, and we are pleased that this has been acknowledged by both the SFO and by the Government.”

I attach a full copy of the announcement we have issued today, but please do not hesitate to contact me should you have any further questions.

Charles Carr
Serco Group plc
M: +44 (0)7718 194381
charles.carr@serco.com

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Investigation by the Serious Fraud Office into Serco companies concludes with a Deferred Prosecution Agreement

3 July 2019

Serco Group plc ('Serco' or 'the Group'), the international service company, today announces that one of its UK subsidiaries, Serco Geografix Ltd (SGL), has reached an agreement in principle to a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO). This proposed DPA is subject to final judicial approval, and SGL and the SFO will both appear in court on 4 July 2019 to seek this approval. If confirmed by the Court, this would conclude the SFO's investigation into Serco companies announced in November 2013.

Key points

- Serco Geografix Ltd has taken responsibility under the terms of the proposed DPA for three offences of fraud and two of false accounting committed between 2010 and 2013 related to the reporting to the UK Ministry of Justice (MoJ) of the levels of profitability of Serco's Electronic Monitoring (EM) contract. These issues were reported by Serco to the SFO and the MoJ in November 2013.
- Investigations into allegations of wrongful billing which were the subject – understandably – of significant public and Parliamentary concern in 2013 have now been concluded without any criminal charges against Serco.
- SGL will pay a fine of £19.2m together with £3.7m related to the SFO's investigation costs. The fine reflects a discount of 50% as a result of Serco's self-reporting, as well as its significant and substantial cooperation with the investigation. No damages or disgorgement of profit will be payable to the MoJ because the SFO has agreed that Serco has already fully compensated the Department in respect of the offences as part of a £70m settlement paid by Serco to the MoJ in December 2013.
- The SFO has recognised the significant steps Serco has taken to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government. This programme included over 80 actions and initiatives, and included rewriting our system of management control, as well as strengthening our bidding, contract management, internal audit and management assurance processes.
- Nobody who sat on the Board of Serco Group, or who was part of the Executive Management Team at the time these offences were committed, works for Serco today.
- Alongside the DPA, Serco has assumed certain obligations including on-going co-operation with the SFO and further strengthening of its Group-wide Ethics and Compliance functions, as well as agreeing to report annually to the SFO and the Cabinet Office on the Group's assurance programme.
- In June 2016, the Financial Reporting Council (FRC) announced an investigation into the conduct of the Group's auditors at the time, Deloitte. Nothing in these matters impacts the previously reported statutory accounts of Serco Group.

Rupert Soames, Serco Group Chief Executive, said: "Those of us who now run the business are mortified, embarrassed and angry that, in a period between six and nine years ago, Serco understated the level of profitability of its Electronic Monitoring contract in its reports to the Ministry of Justice. Serco apologised unreservedly at the time, and we do so again. Nobody who sat on the Board of Serco Group, or who was part of the Executive Management Team at the time these offences were committed, works for the Group today.

"Over the last six years we have worked extremely hard to regain the trust and confidence of Government, implementing in its entirety a Corporate Renewal Programme which was approved by Government and which has helped us to transform our corporate culture, processes and governance. The management and culture of Serco, and the transparency with which we conduct our affairs, have changed beyond all recognition, and we are pleased that this has been acknowledged by both the SFO and by the Government."

Serco has been advised on these matters by our corporate lawyers, Clifford Chance LLP.

Background for Editors

Electronic Monitoring (EM) of offenders allows Courts to impose sentences or bail conditions which monitor curfews at known locations as an alternative to prison; offenders are required to wear ankle-tags which are linked by radio to base-stations, often in their homes, and Courts require users to be within range of the base station for set periods during the day or night. In 2013, around 14,000 people were subject to this monitoring at any one time, although the total number of people who were tagged during the year would have been much higher. Between 2005 and 2014, Serco was one of the companies contracted by the MOJ to provide these monitoring services.

In May 2013, the Ministry of Justice (MOJ) commissioned an independent audit of Serco's EM contracts as a result of concerns related to billing processes on the contract, specifically that the MoJ was paying its contractors for monitoring people it should not have been. The MoJ, it was suggested, might have been wrongfully billed for monitoring people who had died, were in prison, or had left the country. In November 2013, the SFO announced that it was opening an inquiry into these matters. Although these billing issues were the focus of Parliamentary and public concern, they have been fully investigated by the SFO, and no further action is being taken against Serco.

In August 2013, in parallel with the MoJ's investigations, Serco launched its own investigation which discovered evidence of suspected fraudulent costs and cross-charges between two Serco Group subsidiaries which were involved in the EM contracts. These had the effect of making the profitability of the EM contract appear to the MoJ to be lower than it was, and denied the MoJ the accurate information to which it was entitled and which it might have used to reduce Serco's revenues from the EM contracts.

Serco reported its findings to the SFO and to the MoJ, and it is these matters which are the subject of the proposed Deferred Prosecution Agreement with Serco Geografix Ltd, a subsidiary of Serco that designed, manufactured and provided electronic monitoring equipment.

Recognising the need to restore trust with its largest customer, in October 2013 Serco put in place a comprehensive Corporate Renewal Programme (CRP), designed with the help of the UK Government and overseen by Lord Gold QC, and in December 2013 Serco paid £70m in compensation and costs to the Ministry of Justice. Over 80 discrete and specific actions and initiatives were set in train as part of the CRP, and their implementation was overseen by a sub-committee of the Board of Serco Group. Actions included rewriting our system of management control (the Serco Management System), as well as strengthening our bidding, contract management, internal audit and management assurance processes. In January 2014, the Cabinet Office issued a statement accepting the scope of the CRP, following scrutiny by officials and a detailed review by the Government's independently appointed Oversight Group. In October 2014, the Corporate Renewal Programme was reported on by the UK Government's appointed consultants confirming that Serco had identified and understood the causes of previous issues and had put in place cultural and governance structures designed to address those issues and sustain ongoing customer confidence. Since 2014, Serco have continued to enhance and improve its processes as well as building a culture appropriate to a trusted supplier of Government services.

For a description of Deferred Prosecution Agreements see the SFO website:

<https://www.sfo.gov.uk/publications/guidance-policy-and-protocols/deferred-prosecution-agreements/>

Ends

For further information, please contact:

Marcus De Ville, Tel: 07738 898 550 or Email: marcus.deville@serco.com

About Serco

Serco is a leading provider of public services. Our customers are governments or others operating in the public sector. We gain scale, expertise and diversification by operating internationally across five sectors and four geographies: Defence, Justice & Immigration, Transport, Health and Citizen Services, delivered in UK & Europe, North America, Asia Pacific and the Middle East. More information can be found at www.serco.com