

27 March 2018

Rt Hon Frank Field MP
Rachel Reeves MP
Chairs of the BEIS and Work and Pensions Committees
House of Commons
Westminster
London
SW1A 0AA

Dear Mr Field and Ms Reeves

Carillion

Thank you for your letter dated March 2018, received on 20 March 2018, where you ask three questions pursuant to our letter to you dated 13 March 2018. Our responses, which should be read in conjunction with our letter of 13 March 2018, are set out below.

1. You note that 42% of the Peer Reviews undertaken in the period January 2015 to July 2017 recommended a forecast EOL margin that was less than that in the Contract Appraisal. Could you confirm to us whether the other 58% were in line with the Contract Appraisal EOL or were there cases where management were taking a more prudent approach to the forecast EOL?

Our work in July and August 2017 indicated 14% of the Peer Reviews undertaken in the period January 2015 to July 2017, which related to the contracts for which a provision was allocated, recommended a forecast EOL margin that was more than that in the Contract Appraisal.

2. On more than half of the reviews noted above, you state that the "adverse variance exceeded £5m". Could you confirm to us the total figure of those adverse variances?

Our work in July and August 2017 indicated there were 11 Peer Reviews undertaken in the period January 2015 to July 2017, which related to the contracts for which a provision was allocated in July 2017, where the adverse variance (being the difference between the position recommended by the Peer Review and the forecast EOL margin in the Contract Appraisal) exceeded £5m. As these 11 Peer Reviews were undertaken at various points in the lifecycle of four contracts we have summarised the results of each review below, rather than present a total figure of these adverse variances.

Contract	Peer review date	Adverse variance (£m)
Royal Liverpool University Hospital	November 2016	53.9
Royal Liverpool University Hospital	May 2016	31.3
Royal Liverpool University Hospital	September 2015	12.9
Royal Liverpool University Hospital	March 2015	7.8
Midlands Metropolitan Hospital	April 2017	5.6
Midlands Metropolitan Hospital	November 2016	16.9
Battersea	April 2016	6.3
Battersea	October 2015	75.3
Battersea	March 2015	6.6
Toronto Transit Commission	June 2016	24.5
Toronto Transit Commission	July 2015	15.0

As these Peer Reviews were conducted over a 30 month period they reflect how the contracts evolved during this period, including the agreement of contract variations and settlements reached with sub-contractors and others.

3. We appreciate that as internal auditors, you had no responsibility in the preparation of the 2016 financial statements, and as such were unable to provide us with a judgement as to whether the revenue recognised was overstated on certain contracts. Through review of the February 2017 Audit Committee papers, we know that on the Royal Liverpool contract, the company were accounting for an EOL margin of 4.44%, with a receivable balance of £16.5m at 31 December 2016. The company had a central provision to cover all construction contracts of £17m. Do those numbers reconcile with the Contract Appraisal position or the Peer Review Position?

While we cannot comment as to what the EOL margin of 4.44%, to which you refer, may or may not reconcile to, our work in July and August 2017 considered both the November 2016 Contract Appraisal and the November 2016 Peer Review for Royal Liverpool University Hospital. The November 2016 Contract Appraisal referenced a forecast EOL margin of 4.9% while the November 2016 Peer Review recommended an EOL margin of -12.7%. I cannot comment with regard to either the receivable balance or the central provision at 31 December 2016 as I had no responsibility for either the preparation or audit of the 2016 financial statements.

Please let me know if you need anything further in this regard.

Yours sincerely



Michael Jones