



# The Insolvency Service

Delivering economic confidence

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Rt Hon Frank Field MP  
Work and Pensions Committee  
Rachel Reeves MP  
Business, Energy and Industrial Strategy  
Committee

House of Commons  
LONDON  
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Reference: DC/SC/6.6  
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Date: 4 July 2018

Dear Mr Field and Ms Reeves,

## **PwC conflicts of interest**

Thank you for your letter of 6 June 2018 asking me to address certain matters relating to PwC's appointment as special managers in the liquidation of Carillion.

I have set out both the questions and my answers below.

### **1. What actions you have taken to manage conflicts of interest between PwC's work as Special Managers and its previous work relating to Carillion?**

I have considered carefully the work carried out by PwC in respect of Carillion prior to the liquidations but do not believe that any of the work PwC has carried out is in conflict with the duties required of the special managers. The fact that a firm has previously undertaken work in relation to an insolvent business does not necessarily or automatically mean that a conflict arises. The nature of the prior relationship and nature of the work being carried out within the insolvency need to be considered to establish whether any conflict has arisen, or could arise.

I set out in my letter of 29 March 2018 the steps that I have put in place to monitor the work of PwC and I am alert to the possibility of conflicts, or the perception of conflicts, arising in the areas that you have identified in your letter.

Where an insolvency practitioner accepts an appointment there is a system of self-review wherein the practitioner is required to take reasonable steps to identify and



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evaluate threats to the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Such threats would include the risk of a conflict of interest. Where such a threat is identified, the practitioner is required to respond in an appropriate manner to those threats. Safeguards would include policies and procedures to prohibit individuals who are not members of the insolvency team from inappropriately influencing the outcome of the appointment. Where safeguards do not reduce threats created by a conflict of interest to an acceptable level, an insolvency practitioner may be liable to sanction from their regulatory body. These principles are set out in the ICAEW Code of Ethics for insolvency practitioners.

Adherence to the Code of Ethics is compulsory and continues throughout the relevant insolvency process. In relation to Carillion, I am aware, for example, that PwC have put in place a system of 'ethical walls' to ensure that functions are separated where there might be a perceived risk of conflict. I am satisfied that the risk of conflict within PwC is being managed appropriately.

## **2. What role does PwC have in the collection of evidence regarding the actions of the former directors of Carillion.**

PwC are working under the instruction and direction of my investigation team; ultimately me. To date they have had three particular functions: to assist me in the initial information gathering phase of the investigation, to analyse complex data and to provide specialised IT services.

Within these broad areas, tasks undertaken include the identification, forensic capture and preservation of documents, interrogation and analysis of financial records, attendance at fact-finding meetings with Carillion staff and document search and review. Carillion operated more than 300 IT systems spread across data centres, physical sites and 'cloud' providers. The total data held in these systems is around 350 terabytes (1 terabyte is roughly equivalent to 1,000,000 megabytes) and the company's internal financial reporting system holds over 6 billion rows of data.

Interrogation and analysis of these systems requires a number of specialist skill sets such as forensic accounting and forensic IT services. PwC are well placed to provide these services; they already possess the capability and their work as special managers means that the firm has a working knowledge of Carillion's IT and other systems.

I think it is important to stress that PwC are providing very much a supporting role in relation to the investigation. They are in no way influencing or directing the investigation.

## **3. What steps has the OR taken to ensure that PwC's conflicts of interest do not jeopardise any potential disqualification action against former directors of Carillion?**

I believe that the answers to questions 1 and 2, above, addresses this point. No conflicts have to date been identified.

PwC has disclosed what work it performed for Carillion prior to the liquidation and this is considered whenever my investigation team issues a new instruction. Prior to issuing an instruction to PwC, the appropriateness and nature of the firm's (continued) involvement in that area is considered taking into account the firm's previous work in relation to Carillion. Each instruction is valid for only a limited period and subject to further review before an instruction is renewed.

**4. Has the IS considered hiring a second firm to support its work investigating possible action against former Carillion directors?**

I have considered the extent to which additional assistance is required in respect of the investigation into the conduct of Carillion's directors. It is my view that the hiring of a second firm to support this work is not required at this stage and would add unnecessary costs to the investigation.

In addition to the work being carried out by PwC outlined above, the resource available within my own team is supported by lawyers engaged to advise on matters relating to the investigation. The engaged lawyers have considerable experience conducting investigations on behalf of the Insolvency Service and are in a position to assist with regards to matters such as document management and reviewing complex, technical documentation.

**5. The NAO report states that PwC are charging a 20% premium on services provided post liquidation. Did the OR sign off on that decision and what is the reason for that premium?**

Both public and private sector customers of Carillion need to cover the actual cost of delivering services. Carillion's customers are being charged an uplift on the run rate of charges for delivery of services at the date of the liquidation. This reflects the additional costs related to ongoing service provision, which I must recover. As has been identified elsewhere, some of Carillion's contracts were being operated at low margins. This, allied to the additional trading costs, meant that it was necessary to charge an uplift to ensure that the actual costs were met.

The uplift is payable to the companies in liquidation and not to the special managers.

This process was agreed at the outset of the liquidation and the decision to implement the premium was mine as liquidator.

I hope that you find this information useful and I am happy to assist further, as required.

Yours sincerely,



**DAVID CHAPMAN**  
Official Receiver