Rachel Reeves MP – Chair, BEIS Select Committee  
Rt Hon Frank Field MP – Chair, Work & Pensions Committee  
House of Commons  
London  
SW1A 0AA

23 September 2019

Dear Rachel and Frank,

Carillion

Thank you for your letter of 9 September 2019.

The FRC is conducting four investigations concerning Carillion plc ("Carillion"), two under the Audit Enforcement Procedure ("AEP") and two under the Accountancy Scheme ("the Scheme").

AEP investigations

Scope

The first AEP investigation, opened in January 2018, concerns the audits of the financial statements of Carillion plc for the years ended 31 December 2014, 2015 and 2016, and additional audit work carried out during 2017. The second AEP investigation, opened in February 2019, concerns the audit of certain transactions that featured in the financial statements for the year ended 31 December 2013.

The investigation of the audits of the years 2014-2016 has primarily examined:

- construction and services contracts that were financially significant in terms of Carillion’s overall profitability during the relevant period;
- liabilities of Carillion arising from pension schemes where group companies were the sponsoring employers;
- goodwill carried on Carillion’s balance sheet arising from historic acquisitions;
- Carillion’s use of a supply chain financing scheme (‘reverse factoring’), and related disclosures, and
- the adoption of the ‘going concern’ basis for the preparation of Carillion’s financial statements.
Progress

In each of these areas an extensive review has been undertaken of the audit work papers, documents produced by Carillion and third parties e.g. internal auditors and external advisors, and emails and other correspondence. We have also conducted a series of detailed interviews. An independent expert is now considering our analysis in order to provide an expert opinion on whether there were breaches of auditing standards. We are also taking advice from Counsel. Our investigation in relation to the matters concerning transactions in 2013 is also well advanced.

If, in the light of the analysis and advice, we decide to proceed with enforcement action, an Initial Investigation Report (the "IIR") is produced. The IIR is a formal detailed document required by the AEP to summarise the evidence and documents obtained in the course of the investigation and to outline Allegations made and Requirements which appear to have been breached. It is provided to the parties under investigation so that they can decide whether they contest or admit each of our allegations. If any of the allegations are contested, they may be heard by a tribunal in order to conclude the case.

The FRC’s general target in AEP cases is to provide the IIR to the parties under investigation within two years of the opening of the investigation; in this case, by late January 2020. In the light of the scale and complexity of this investigation and the need to ensure a fair process that is very challenging. However, as matters stand that remains our target. It is in the overall public interest that our investigations are both robust and timely.

Scheme investigation – former directors

Scope

The scope of this investigation as extended in February 2019, is the preparation and approval of the financial statements of Carillion plc for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2017; the preparation and reporting of other financial information during the period 2014-2017; and certain transactions featured in the financial statements for the year ended 31 December 2013. The focus of our investigation has largely mirrored the key areas of the audit investigation, as set out above.

Progress

Our investigation is ongoing, working closely with the Official Receiver, who is in possession of Carillion’s business and other records and is conducting investigations into whether there was misconduct by Carillion’s former directors.
As with cases under the AEP, the FRC’s general target is to decide within two years of opening the investigation whether the requirements for enforcement action are met; in this case, by mid-March 2020. Again, in the light of the number of different areas we have investigated and the volume of the relevant material, meeting that target is challenging, but on current information we believe that it will be met.

Scheme investigation – Audit Quality Review

Scope

This investigation, opened in November 2018, concerns potential misconduct arising from the provision of materials to the FRC by KPMG in connection with the FRC’s Audit Quality Review function, including in relation to the audit of Carillion.

Progress

The investigation is close to completion and we expect to make a decision on whether to pursue enforcement action before the end of 2019.

Publication

Where enforcement action is pursued following investigation, the substance of any findings or any Tribunal report as applicable will be published on our website after the case has been concluded and following any appropriate notifications to third parties. In the event that our investigations lead to a decision not to pursue enforcement action, we will publish the closure of the matter as soon as practicable thereafter.

I trust the above provides the information you require. We are fully committed to completing this work as rigorously and rapidly as possible.

Yours sincerely

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