

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

(1) DELOITTE LLP

(2) HELEN GEORGE

SETTLEMENT AGREEMENT

1. This Settlement Agreement ("**Agreement**") is made on the ^{7th} day of January 2019 between Elizabeth Barrett as the Executive Counsel of the Financial Reporting Council ("**FRC**") ("**the Executive Counsel**"), and Deloitte LLP ("**Deloitte**") and Helen George ("**Ms George**"). The Executive Counsel, Deloitte and Ms George together are described as "**the Parties**". The Agreement is evidenced by the signatures of the Executive Counsel on her own behalf, by Ian Joslin on behalf of Deloitte and by Ms George on her own behalf.
2. The Particulars of Fact and Acts of Misconduct concerning Deloitte and Ms George ("**the Particulars**") were agreed by the Parties in accordance with the FRC Accountancy Scheme ("**the Scheme**") and are annexed hereto. The Particulars relate to the conduct of (i) Deloitte in relation to the audit of the financial statements of Serco Geografix Limited ("**Geografix**") for the years ending 31 December 2011 and 31 December 2012, and (ii) Ms George in relation to the audit of the financial statements of Geografix for the year ending 31 December 2011. Deloitte and Ms George admit the Acts of Misconduct set out in the Particulars.
3. The Parties recognise that the determination to be made in this case is a matter for the Tribunal member in accordance with paragraph 8(4)(ii) of the Scheme.
4. Terms used in this Agreement shall have the same meaning as set out in the Scheme and the FRC Sanctions Guidance (effective 1 June 2018) ("**the Sanctions Guidance**").

Sanction

5. The Parties have agreed the following terms of settlement:
 - a. That Deloitte and Ms George each receive a Severe Reprimand;

- b. That Deloitte pay a Fine of £6,500,000 (discounted in accordance with paragraph 73 of the Sanctions Guidance relating to settlement adjustments by 35% to £4,225,000);
 - c. That Ms George pay a Fine of £150,000 (discounted in accordance with paragraph 73 of the Sanctions Guidance relating to settlement adjustments by 35% to £97,500);
 - d. A Condition that Deloitte arrange for all audit staff, including partners, to undergo a training programme (such programme to be designed to the satisfaction of the FRC), which includes material relating to the statutory audits of subsidiaries as part of group audits. More particularly, the training programme will provide content on how to identify areas of significant risk effectively at the planning and execution stages of subsidiary company audits, the importance of stakeholder relationships of the wider group and the risk of fraud in that context.
6. The Fines shall be paid not later than 28 days after the date when this Agreement takes effect.
 7. The training programme carried out pursuant to the Condition shall commence within three calendar months after the date when this Agreement takes effect and Deloitte shall provide the FRC with written notice when the Condition has been complied with, such notice to be sent not later than six months after the date when this Agreement takes effect.
 8. In determining the appropriate sanctions the Executive Counsel adopted the approach set out in paragraph 18 of the Sanctions Guidance, as follows:

Nature and Seriousness of the Misconduct

9. The Executive Counsel considers that the factors relevant to assessing the nature and seriousness of the Misconduct are:
 - a. The Misconduct involved failing to react to clear indicators of the risk of potential fraud on a UK government department despite such indicators being visibly set out on the Geografix audit file for both the 2011 and 2012 audit years.
 - b. The Misconduct involved failing to comply with important auditing standards and included failings in relation to identifying the risk of fraud or material misstatement and the exercise of professional scepticism.
 - c. The Misconduct was not limited to an isolated event and extended to two audit years.
 - d. In all the circumstances, the Misconduct could undermine confidence in the standards of conduct of auditors and audit firms and in the profession generally.
 - e. As the engagement partner for the 2011 audit, Ms George was the senior member of the audit team with overall responsibility for the conduct of that audit and with

supervisory responsibilities. Ms George abrogated her responsibility as reflected by her failure to supervise the audit properly.

- f. The Misconduct was not dishonest, deliberate or reckless and did not involve a failure to act with integrity.
- g. Neither Deloitte nor Ms George derived or intended to derive any financial benefit from the Misconduct in that the fees received were unconnected with and not dependent on the failings identified.

Identification of Sanction

- 10. Having assessed the seriousness of the Misconduct and considered the range of available sanctions, the Executive Counsel considers that the sanctions identified above are appropriate sanctions for each of Deloitte and Ms George.
- 11. The Executive Counsel has then taken into account aggravating and mitigating factors set out below, to the extent that they have not already been taken into account in relation to the nature and seriousness of the Misconduct. The Executive Counsel has also considered whether any adjustment to sanction for deterrence is required in this case. The conclusion reached is that the sanctions set out in paragraph 5 above are appropriate, having regard to the purpose of the Scheme.

Aggravating Factors

- 12. Deloitte was sanctioned for Misconduct on 10 November 2016 in relation to its audit of Aero Inventory (UK) Limited for the years 2006, 2007 and 2008. It was fined £4,000,000 and issued with a Severe Reprimand in that case.

Mitigating Factors

The following mitigating factors were identified:

- a. Ms George has a good compliance history and disciplinary record.
- b. Deloitte and Ms George have expressed contrition for their Misconduct.

Discount for Settlement

- 13. Having taken into account the admissions made by Deloitte and Ms George and the stage at which those admissions were made (in Stage 1 of the case in accordance with paragraph 73 of the Sanctions Guidance), the Executive Counsel has determined that a reduction of 35% as to the Fines as a settlement factor is appropriate.

Amount of fine

14. The Executive Counsel considers that, having regard to the circumstances of this case and the Parties, and previous relevant outcomes of cases under the Scheme, fines of £6,500,000 and £150,000 for Deloitte and Ms George respectively are proportionate to the Misconduct and will act as an effective deterrent. In accordance with paragraph 35 (b) & (c) of the Sanctions Guidance, the Executive Counsel has taken into account the size and financial resources of Deloitte and Ms George when assessing the amount of the Fines.

Costs

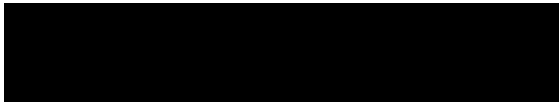
15. The Parties have agreed the following terms of settlement for costs:
 - a. That the sum of £300,000 be paid by Deloitte as an appropriate contribution to the costs of, and incidental to, the investigation in respect of Deloitte and Ms George.
 - b. The costs shall be paid not later than 28 days after the date when this Agreement takes effect.
16. If the decision is to approve the Agreement, including the sanctions set out above, then the Agreement shall take effect from the next working day after the date on which the notice of the decision is sent to Deloitte and Ms George in accordance with paragraph 8(4)(iv) of the Scheme.



Elizabeth Barrett
Executive Counsel

7 January 2019

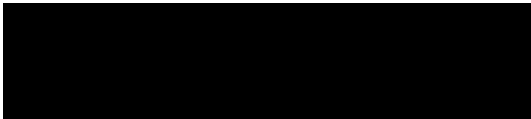
Date



Ian Joslin
Partner
On behalf of Deloitte LLP

7 January 2019

Date



Helen George

7 JANUARY 2019

Date