

IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

-and-

STEPHEN JOHN DENISON (1)
PRICEWATERHOUSECOOPERS LLP (2)

SETTLEMENT AGREEMENT

1. This Settlement Agreement ("**Agreement**") is made on 31 May 2018 between Claudia Mortimore as the Interim Executive Counsel of the Financial Reporting Council ("**the Executive Counsel**") and Stephen John Denison ("**Steve Denison**" or "**Mr Denison**") and PricewaterhouseCoopers LLP ("**PwC**"). The Executive Counsel, Mr Denison and PwC together are described as "**the Parties**". The Agreement is evidenced by the signatures of the Executive Counsel on her own behalf, by Mr Denison on his own behalf and by Margaret Cole, General Counsel of PwC, on behalf of PwC.
2. The Particulars of Fact and Acts of Misconduct concerning Mr Denison and PwC ("**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 each of Mr Denison and PwC in relation to the audit of the financial statements of Taveta Investments Limited and its subsidiaries for the period year ending 30 August 2014 ("**the Audit**"). Mr Denison and PwC 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 Sanctions Guidance dated 1 June 2014 ("**the 2014 Sanctions Guidance**").

Sanction

5. The Parties have agreed the following terms of settlement:

PwC:

- a. Fine of £10 million (reduced in accordance with paragraph 59 of the 2014 Sanctions Guidance relating to settlement adjustments by 35% to £6.5 million);
- b. Severe Reprimand;

- c. Condition that PwC monitor and support the Leeds Audit Practice, to include monitoring of compliance with Ethical Standards, and provide the Executive Counsel with a detailed report setting out the results of such monitoring and support conducted to date and on an annual basis for audits with a 2018, 2019 and 2020 year end.
- d. Provide a signed undertaking that PwC will review (and if necessary amend) its policies and procedures with a view to ensuring that audits of all high risk or high profile entities that are not listed companies are subjected to an engagement quality control review (as defined in International Standard on Quality Control (UK) 1 (Revised June 2016).

The definition of high risk or high profile entities for this purpose will be agreed between the Executive Counsel and PwC within 28 days of this Agreement. For the avoidance of doubt, however, it will include, but not be limited to, private companies which employ 10,000 or more individuals in the UK (excluding subsidiaries of a UK listed company which is audited by PwC UK).

Mr Denison:

- a. Fine of £500,000 (reduced in accordance with paragraph 59 of the 2014 Sanctions Guidance relating to settlement adjustments by 35% to £325,000);
 - b. Severe Reprimand;
 - c. Condition that Mr Denison does not perform any audit work (including, but not limited to, the signing of any auditor's report expressing an opinion on a reporting entity's financial statements) for a period of 15 years from the date of this Agreement. To this end, Mr Denison undertakes to:
 - (i) Apply to remove his name from the register of statutory auditors, held by the ICAEW within 7 days of the date of this Agreement. Such removal to have immediate effect;
 - (ii) Make no application to re-join or to have his name re-entered on the register for a period of at least 15 years.
6. The fines shall be paid not later than 28 days after the date when this Agreement takes effect.
 7. In determining the appropriate sanctions, the Executive Counsel adopted the approach set out in paragraph 16 of the 2014 Sanctions Guidance, as follows:

Nature and Seriousness of the Misconduct

8. The Executive Counsel considers that the factors relevant to assessing the nature and seriousness of the Misconduct are:

- a. The admitted failings relate to the audit of BHS and two other Taveta Group companies.
- b. BHS was a significant private company with a large number of stakeholders, including employees, those in receipt of pensions and pension funds.
- c. The financial statements were likely to be of interest to the purchaser and the purchaser's professional advisors as well as lenders, suppliers, trade creditors and the Pensions Regulator ("tPR").
- d. The admitted failings pervade multiple areas of the BHS Audit: planning, going concern, impairment and income statement.
- e. Breaches of several key International Standards of Auditing have been admitted.
- f. The admitted failings include breaches of Ethical Standards.
- g. The admitted Misconduct will tend to undermine confidence in the standards of conduct of auditors and audit firms and in the profession generally.
- h. Mr Denison was in a large part responsible for the Misconduct.
- i. Mr Denison was in a senior position and led PwC's Assurance business across the UK regions.
- j. As the engagement partner, Mr Denison was the senior member of the Audit team with overall responsibility for the conduct of the Audit and with supervisory responsibilities. Mr Denison abrogated his responsibility as reflected by his failure to properly supervise the Audit and devote sufficient time to it.
- k. In the case of Mr Denison, the Misconduct involved a failure to conduct business with integrity in relation to the circumstances surrounding the signing off of the audit opinion for BHS for the year ending 30 August 2014.

Identification of Sanction

9. 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 PwC and Mr Denison.
10. The Executive Counsel has taken into account aggravating and mitigating factors set out below, to the extent that they have not already been taken into account in considering the nature and seriousness of the Misconduct. The Executive Counsel has also considered whether any adjustment to the sanctions 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

11. PwC has been sanctioned for Misconduct in relation to audit on three previous occasions within the past three years.

Mitigating Factors

12. The following mitigating factors were identified:
 - a. Mr Denison has a good compliance history and disciplinary record.
 - b. PwC and Mr Denison have expressed contrition for their Misconduct.

Discount for Settlement

13. Having taken into account the admissions made by PwC and Mr Denison and the stage at which those admissions were made in accordance with paragraph 59 of the Sanctions Guidance (in particular, Mr Denison and PwC having made a very early admission with respect to audit work in relation to going concern) a reduction of 35% to the Fines is appropriate for both PwC and Mr Denison.

Amount of fine

14. The Executive Counsel considers that, having had regard to the circumstances of this case and the Parties, and previous relevant outcomes of cases under the Scheme, fines of £10 million and £500,000 for PwC and Mr Denison respectively are proportionate to the Misconduct and will act as an effective deterrent.

Costs

15. The Parties have agreed the following terms of settlement for costs:
 - a. That the FRC's costs of, and incidental to, the investigation (£595,000) be paid by PwC.
 - b. The costs shall be paid no 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 PwC and Mr Denison in accordance with paragraph 8(4)(iv) of the Scheme.



31 May 2018

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Claudia Mortimore
Interim Executive Counsel

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Date



31 May 2018

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Margaret Cole
General Counsel
On behalf of PricewaterhouseCoopers LLP

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Date



31 May 2018

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Stephen Denison

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Date