

## FINAL NOTICE

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To: **PricewaterhouseCoopers LLP**

FRN: **221411**

Address: **1 Embankment Place, London WC2N 6RH**

Date: **16 August 2024**

### **1. ACTION**

- 1.1. For the reasons given in this Final Notice, the Financial Conduct Authority (“the Authority”) hereby imposes on PricewaterhouseCoopers LLP (“PwC”) a financial penalty of £15,000,000 pursuant to section 345 of the Act.

### **2. SUMMARY OF REASONS**

- 2.1. On 30 January 2019, London Capital & Finance plc (“LCF”) entered administration. This followed the action taken by the Authority on 10 December 2018 when LCF was directed to immediately withdraw its promotional material because the way the firm was marketing its minibonds was unfair, unclear and misleading (for further detail see this [Supervisory Notice](#)).
- 2.2. LCF had been in the business of raising finance from the general public through the issuance of minibonds, ostensibly with the funds then being loaned to third-party corporate entities. By the time LCF entered administration, it had in total sold over 16,700 minibonds to 11,625 bondholders. The minibonds sold by LCF had a face value of around £237.2m.

- 2.3. PwC was engaged as LCF's statutory auditor in the period from 8 September 2016 to 17 October 2017. It audited LCF's Annual Report and Financial Statements for the year ended 30 April 2016 ("the 2016 Accounts") between 8 September 2016 and 10 October 2016 ("the Relevant Period"). PwC resigned as LCF's auditor on 17 October 2017.
- 2.4. During the Relevant Period, LCF failed to co-operate with PwC (including by failing to provide basic information to PwC), acted aggressively towards auditors at PwC, and provided inaccurate and/or misleading information to PwC. In the context of these and other significant issues, PwC formed a reasonable belief that LCF might be (i.e. suspected that LCF was) involved in fraudulent activity.
- 2.5. In the circumstances, PwC should have reported its reasonable belief to the Authority (as well as the facts and matters that gave rise thereto) pursuant to its obligations under the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001 (SI 2001/2587) ("the Reporting Regulations"). PwC failed to do so.
- 2.6. After LCF entered administration, it became clear that its borrowers were unable to repay their loans and that its business had been run in a highly suspicious way. Consequently, LCF's bondholders were exposed to significant losses which have only been partly reimbursed by compensation schemes funded by the financial services industry and the taxpayer. As to those schemes:
  - 2.6.1. By 19 April 2021, the Financial Services Compensation Scheme ("the FSCS") had paid out £57.6m to eligible bondholders who lost money when LCF collapsed.
  - 2.6.2. On 19 April 2021, the Government established a "one-off" compensation scheme, facilitated by the FSCS, to compensate 80% of bondholders' initial investment (up to a maximum of £68,000) for those whom the FSCS could not otherwise compensate. The government scheme closed on 31 October 2022, having paid out a total of £115m to eligible bondholders.
- 2.7. The action proposed in the Notice forms part of a wide range of civil, criminal and regulatory actions that arise against the above background. These include (but are not limited to):

- 2.7.1. criminal investigations by the Serious Fraud Office (in relation to suspected fraud and money laundering offences);
  - 2.7.2. action for the recovery of funds by LCF's Administrators against a wide range of persons, including: (i) civil court action against senior management at LCF and various other parties; and (ii) confidential settlements reached (without the admission of liability) to recover up to £25.5 million from LCF's former auditors, including PwC;
  - 2.7.3. regulatory investigations by the Financial Reporting Council into LCF's auditors (which resulted in a severe reprimand and financial sanction of £7,000,000 (before 30% discount) imposed on PwC for its audit of LCF);
  - 2.7.4. a Final Notice issued against LCF by the Authority on 11 October 2023 (for further details see <https://www.fca.org.uk/publication/final-notices/london-capital-and-finance-plc-2023.pdf> ); and
  - 2.7.5. a Final Notice issued against a former director of LCF by the Authority on 13 February 2024 (for further details see <https://www.fca.org.uk/publication/final-notices/final-notice-floris-jakobus-huisamen-2024.pdf>).
- 2.8. The Authority recognises that PwC was not involved in the misconduct of LCF and, as an auditor, it was not responsible for seeking out or fully investigating suspected fraud. Nevertheless, auditors of regulated firms, by the nature of their work, have a unique insight into how those firms are run and managed. Auditors therefore play an important role in alerting the Authority to issues that may be of material significance to it, as required by the Reporting Regulations. Speed of reporting is vitally important given the potential consequences of consumer harm, financial crime, or other risks to the Authority's objectives.
- 2.9. The Authority also recognises that auditors are required to apply professional scepticism, which includes being open to the possibility of fraud in a way that falls short of a reasonable belief of suspecting their client may be involved in fraud. However, once a relevant reasonable belief has formed, auditors are required to report that to the Authority and this should be done as soon as practicable.
- 2.10. In the circumstances, the Authority hereby imposes on PwC a financial penalty of £15,000,000 pursuant to section 345 of the Act.

### **3. DEFINITIONS**

3.1. The definitions below are used in this Notice:

“the 2016 Accounts” means LCF’s Annual Report and Financial Statements for the year ended 30 April 2016

“the Act” means the Financial Services and Markets Act 2000

“the Audit Team” means a number of individuals at PwC who were assigned to the LCF Audit

“the Authority” means the Financial Conduct Authority

“Banking & Capital Markets” means the department at PwC which includes the Audit Team

“bondholders” means individual investors who invested in a LCF minibond

“minibonds” means non-transferable debt securities issued by LCF and marketed to retail investors

“corporate borrowers” means the companies to which LCF loaned bondholder funds

“FSCS” means the Financial Services Compensation Scheme

“FY16” means the financial year 1 May 2015 to 30 April 2016

“internal SAR” means an inhouse report which PwC staff are obliged to make to the MLRO Unit when they suspect that a person has engaged in money laundering or terrorist financing

“ISA (UK) 250” means the International Standard on Auditing (UK) 250 (revised June 2016) for audits of financial statements for periods beginning on or after 17 June 2016

“ISA (UK) 250A” means Section A of the International Standard on Auditing (UK) 250 (revised June 2016) which deals with the auditor’s responsibility to consider laws and regulations in an audit of financial statements

“ISA (UK) 250B” means Section B of the International Standard on Auditing (UK) 250 (revised June 2016) which deals with the auditor’s statutory right and duty

to report to regulators of public interest entities and regulators of other entities in the financial sector

“LCF” means London Capital & Finance plc

“the LCF Audit” means PwC’s audit of the 2016 Accounts which took place between 8 September 2016 and 10 October 2016

“the Legal Team” means the inhouse legal team that provides legal advice to PwC

“MLRO Unit” means the money laundering reporting officer’s unit, the department at PwC responsible for considering and dealing with internal reports of suspicious activity

“the NCA” means the National Crime Agency

“PwC” means PricewaterhouseCoopers LLP

“the PwC SAR Guidance” means the inhouse guidance on submitting an internal SAR to the MLRO Unit

“the Reporting Regulations” means the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001 (SI 2001/2587)

“Regulation 2” means regulation 2 of the Reporting Regulations

“the Relevant Period” means 8 September 2016 until 10 October 2016

“Risk Management” means PwC’s Risk Management department

“SAR” means a suspicious activity report, a report which a firm is obliged to make to the NCA when it suspects that a person has engaged in money laundering or terrorist financing

“tipping off” means the offences defined by section 333A of the Proceeds of Crime Act 2002 and relates to the act of alerting someone that their activities may be under investigation

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber)

## **4. FACTS AND MATTERS**

### **Background**

#### PwC

- 4.1. PwC is the largest audit firm in the UK by revenue. It is also the second largest professional services network in the world.
- 4.2. PwC started the preparatory work for its audit of the 2016 Accounts in June 2016 and sent LCF an engagement letter on 23 June 2016. By 30 August 2016, PwC had put in place the Audit Team. The engagement letter was signed by LCF on 8 September 2016, thereby formally appointing PwC as the statutory auditor of LCF from that date until PwC resigned on 17 October 2017.

#### LCF

- 4.3. During the period from 2012 to early-2015, LCF engaged in very little commercial activity and filed accounts showing it to be either a dormant company or one generating low revenue.
- 4.4. Thereafter LCF engaged in the business of raising finance from the general public through the issuance of minibonds, ostensibly with the funds then being loaned to third-party corporate entities.
- 4.5. From early 2015 the minibond business of LCF grew rapidly. By the financial year ending 30 April 2016 (the year audited by PwC, "FY16") LCF had issued minibonds with a total face value of £9.95m. Over the next 12 months, after the period covered by the financial statements PwC had audited, LCF issued a further £53.4m of minibonds. When LCF went into administration on 30 January 2019, it had issued bonds with a face value of £237.2m to 11,625 bondholders.

### **The Reporting Regulations and PwC's understanding of Regulation 2**

- 4.6. Pursuant to Regulation 2 and section 342(6) of the Act, auditors of authorised firms have a duty to report certain matters to the Authority.
- 4.7. Regulation 2 is set out in more detail in Annex A but it provides (amongst other things) that an auditor of an authorised firm must inform the Authority if it reasonably believes that:

- 4.7.1. the firm in question is or has been, or may be or may have been, in contravention of any "*relevant requirement*" (as defined in Annex A) applicable to that firm, which contravention may be of material significance to the Authority in determining whether to exercise, in relation to the firm concerned, the functions conferred on the Authority by or under the Act; or
  - 4.7.2. information or its opinion on matters of which it has become aware in its capacity as an auditor may be of material significance to the Authority in determining whether the firm satisfies and will continue to satisfy the "*threshold conditions*" (again, as defined in Annex A).
- 4.8. During the Relevant Period, PwC understood that:
- 4.8.1. Regulation 2 required it to inform the Authority of any information that it believed could be a breach of the Authority's regulations and would be of material significance to the Authority; and
  - 4.8.2. material significance encompassed "*anything that could influence the decision of the [Authority] in terms of whether [an authorised person was] in compliance with the [...] rules that were surrounding that [authorised person] at the time*", including information possessed by an auditor related to (or the auditor's opinion about) the authorised person's involvement in a potential fraud.

### **The LCF Audit**

- 4.9. PwC initially considered that the LCF Audit would be low-risk and simple based on the size and nature of the business and that it would take around 2 weeks to complete. Instead, the LCF Audit turned into a "*very complex and risky job*" with involvement of multiple partners, Risk Management and the Legal Team.
- 4.10. The LCF Audit encountered significant risk management issues and required a large amount of partner time considering various options, including whether LCF might be involved in fraudulent activity. It took 3 times longer to complete (6 weeks in total) due to significant issues which fell "*at the extreme end of the scale*", including: (i) LCF's failure to co-operate with PwC, which gave rise to serious difficulties in obtaining even basic information from LCF; (ii) aggressive behaviour from a senior individual at LCF with complete control of its day-to-day operations; and (iii) substantial concerns about the veracity and reliability of the

information provided by LCF and its involvement in potential fraud. Whilst these kinds of issues are not uncommon in an audit, they collectively gave rise to serious concerns and resulted in PwC having a reasonable belief that LCF might be involved in potential fraud.

- 4.11. On 8 September 2016, the Audit Team had an internal kick-off meeting to discuss the audit approach for LCF. The notes of the meeting mention that the behaviour of the client had raised questions as to whether there was "*something wrong*".
- 4.12. Later that day, the Audit Team identified that payments from two of the corporate borrowers during FY16 had originated from the same bank account. The nature of the relationship between the corporate borrowers had not been disclosed by the client. It was noted in an internal email sent by a member of the Audit Team that "*if there's something funny going on there we need to treat it to be strictly confidential for now*".
- 4.13. That same day, a member of the Audit Team shared the developing concerns with a senior person within PwC's Banking & Capital Markets practice stating that the situation with LCF had become "*exponentially worse*" and that PwC might need to resign as auditor or limit the scope of the audit "*based on what is happening*".
- 4.14. By this stage PwC, through its Audit Team, considered that the amount of information relevant to the audit, which had been requested and should have been available but was outstanding, was "*quite extreme*" such that it justified involving PwC's Risk Management department.
- 4.15. The outstanding material as at 8 September 2016 included amongst other things: copies of LCF's bank statements; accurate and full disclosure of directorships and related parties; physical copies of signed facility agreements between LCF and the corporate borrowers; copies of the corporate borrowers' audited financial statements and unaudited monthly accounts which should have been provided to LCF on a rolling basis as per the terms of the facility agreements; copies of independent valuation reports confirming property valuations upon which charges had been secured or other evidence to support LCF's decisions to lend money to the corporate borrowers; details of impairment assessments on the corporate borrowers; the signed contract between LCF and an important third party; and missing invoices for payments due from corporate borrowers. The Audit Team were also waiting for signed debtor confirmation letters from LCF which they intended to send to the corporate borrowers to confirm the amounts owed to LCF.



- 4.16. On 9 September 2016, an email between senior individuals within Risk Management described the LCF Audit as "*a problematic situation with numerous concerns*", including "*reluctance to provide information and a number of things that don't feel right to [the Audit Team]*".
- 4.17. Over the course of the audit, the Audit Team continued to encounter, in its own words at the time, "*significant issues*". These issues included the struggle to progress the audit because the client was either unwilling or unable to provide necessary information, time pressure from the client to complete the audit by 16 September 2016, and incorrect information provided by the client in relation to directorships and related parties. There were also concerns about whether the corporate borrowers existed. In addition, the significant issues included various red flags that indicated a risk of fraud which caused the Audit Team to question what was going on at LCF.
- 4.18. On 12 September 2016, Risk Management came to the view that the Audit Team should talk to PwC's inhouse legal team that provides legal advice to PwC staff ("the Legal Team"). Later that evening, the Audit Team briefed the Legal Team.
- 4.19. On 13 September 2016 (the next day), the Audit Team sought advice from the Legal Team and others on the contents of a draft email for LCF out of a concern that if it turned out that LCF was involved in fraudulent activity, that email might subsequently be construed as tipping off the client about PwC's suspicions. The email, which was subsequently sent to LCF, listed the outstanding questions and documents needed to progress the audit.
- 4.20. Later that day, a senior person within PwC's Banking & Capital Markets practice sent an email to the Audit Team asking about the Legal Team's view on attendees at a meeting with LCF due to take place the next day and whether or how far they want to be drawn on their questions and key points.
- 4.21. On 14 September 2016, after meeting with LCF, the Audit Team considered the meeting had resulted in more questions than answers. For example, during the meeting LCF denied knowledge of directorships it clearly did know about and only admitted such knowledge when shown evidence obtained by the Audit Team from open-source searches. At the meeting, LCF committed to providing all outstanding audit evidence by the end of 20 September 2016.
- 4.22. On 20 September 2016, the Audit Team emailed the Legal Team and Risk Management about issues which arose during the client meeting on 14 September

2016 and informed them that there was still a lot of outstanding audit evidence, and they had more queries on the information received from the client.

- 4.23. Shortly afterwards, Risk Management told the Audit Team that PwC's MLRO Unit would be in contact to discuss money laundering reporting obligations in relation to LCF. The MLRO Unit is the department at PwC responsible for dealing with internal reports of suspicious activity ("internal SARs"), and for making onward disclosure to the National Crime Agency ("NCA") through suspicious activity reports ("SARs") which financial institutions and other professionals including auditors are obliged to make when they suspect that a person has engaged in money laundering or terrorist financing.
- 4.24. That same day, after a telephone call with the Audit Team, the MLRO Unit told the Audit Team to submit an internal SAR on LCF within three working days unless they were awaiting any further information to substantiate their suspicion or bring clarity to the matter.
- 4.25. Later that day, on 20 September 2016, the Audit Team emailed Risk Management, copying in the Legal Team, to confirm that contact had been made with the MLRO Unit and that they intended to complete an internal SAR that evening. The MLRO Unit also expected to receive an internal SAR based on the information provided.
- 4.26. PwC had written guidance on submitting an internal SAR at the time of the LCF Audit ("the PwC SAR Guidance") which stated that information which causes a member of PwC to know, suspect, or have reasonable grounds to know or suspect, that someone is engaged in money laundering (including suspicions relating to persons connected to or employed by the client, or counterparties to a transaction with the client) should be reported to the MLRO Unit as soon as practically possible once a suspicion is formed. The guidance also provided examples of what may be reported, including "*refusal by a client to provide information you have requested without a legitimate explanation*".
- 4.27. The Audit Team did not seek further information to substantiate their suspicion, instead sending a completed internal SAR to the MLRO Unit on 20 September 2016, describing the ongoing struggle to obtain information from LCF.
- 4.28. Throughout the LCF Audit, the Audit Team believed the information requested from LCF was "*very straightforward*" and "*deliverables that you would expect to get on every audit*" but the information was not forthcoming or easy to obtain, and when it was received it was incomplete. The Audit Team believed the missing

information might be relevant to their concerns about whether LCF may have been involved in a potential fraud.

- 4.29. On 27 September 2016, the approach for several audit tests were changed or abandoned due to the lack of audit evidence provided by the client.
- 4.30. On 3 October 2016, the Audit Team informed the Legal Team and Risk Management that they believed they had sufficient and appropriate audit evidence to sign off the audit. The next day, the Audit Team was asked to attend an urgent meeting with the Legal Team and Risk Management to review the audit file and answer questions. In the following days, the Audit Team received further audit evidence from LCF and a hot file review was carried out by an independent auditor at PwC on 8 and 9 October 2016 before the audit could be signed off.
- 4.31. By 10 October 2016, PwC had satisfied itself that it was appropriate to sign an unqualified (clean) audit opinion for the 2016 Accounts. Even if that meant that PwC no longer subjectively believed that LCF was involved in fraudulent activity (as to which the Authority does not need to make a finding and makes no finding) its obligation to report its previous reasonable belief as to fraud remained.

## **5. FAILINGS**

- 5.1. The regulatory provisions relevant to this Notice are referred to in Annex A.
- 5.2. During the LCF Audit, PwC (through the Audit Team) formed a reasonable belief that LCF might have been involved in fraudulent activity in that:
  - 5.2.1. by 8 September 2016, PwC suspected LCF might be involved in fraudulent activity, in large part due to the lack of co-operation from LCF and the extreme amount of basic audit information which had been requested but not provided, the aggressive behaviour of a senior individual at LCF with complete control of its day-to-day operations, and the fact that information that LCF had provided to the Audit Team had been discovered to be inaccurate and/or incomplete (see paragraphs 4.11 to 4.15); and
  - 5.2.2. by 13 September 2016 at the latest, PwC's suspicions continued to be such that they were concerned about potentially tipping off LCF and sought advice on the content of a draft email for LCF and the extent to which they wanted to be drawn on their questions in in-person meetings with LCF (see paragraphs 4.16 to 4.20 above); and

- 5.2.3. by 20 September 2016 PwC's suspicion was such that the matter had been discussed with Risk Management, the Legal Team and reported to the MLRO Unit both verbally and by the submission of an internal SAR (see paragraphs 4.22 to 4.27 above).
- 5.3. PwC understood that if it suspected an authorised firm was involved in fraudulent activity that would potentially: (a) mean there might have been a contravention of a relevant requirement and/or that the firm concerned might not be satisfying the threshold conditions (including, e.g. the firm's duty to conduct its business with integrity and/or to establish and maintain controls for countering the risk of being used to further financial crime and also the suitability requirement to be a fit and proper person); and (b) be a matter of material significance to the Authority in determining whether to exercise, in relation to the firm concerned, the functions conferred on the Authority by or under the Act.
- 5.4. In the circumstances, PwC should have promptly reported its reasonable beliefs to the Authority (as well as the facts and matters giving rise thereto) pursuant to Regulation 2 and section 342(6) of the Act. These provisions do not require an auditor to investigate fully whether their suspicions are conclusively established, nor to wait for an extensive period to see if their suspicions are allayed before making a report (although in any event the Audit Team waited at least 11 days before resolving to make an internal SAR). On the contrary, where the matter giving rise to the duty to report casts doubt on the integrity of those charged with governance or their competence to conduct the business of a regulated entity, the auditor is to make the report to the regulator as soon as practicable (see Annex B and, in particular, paragraph 14 of ISA (UK) 250B therein).
- 5.5. However, in breach of Regulation 2 and section 342(6) of the Act, at no point during the Relevant Period did PwC communicate to the Authority its reasonable belief that LCF might have been involved in fraudulent activity.

## **6. SANCTION**

- 6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms. As per DEPP 6.5.1G for the purpose of DEPP 6.5 to 6.5D and DEPP 6.6.2 G the term "firm" includes auditors.

### **Step 1: disgorgement**

- 6.2. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practical to quantify this. The Authority has not identified any financial benefit that PwC derived from its breach.
- 6.3. The figure after Step 1 is therefore £0.

### **Step 2: the seriousness of the breach**

- 6.4. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm of its breach, the Step 2 figure will be based on a percentage of the firm's revenue from the relevant products or business area.
- 6.5. The Authority considers that the revenue generated by PwC is not an appropriate indicator of the harm or potential harm caused by its breach and there is no alternative indicator of harm or potential harm. Pursuant to DEPP 6.5A.2G(13), the Authority has determined the appropriate Step 2 amount by taking into account those factors which are relevant to an assessment of the level of the seriousness of the breach.
- 6.6. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. The Authority considers the following factors to be relevant to the seriousness of PwC's breach:

(i) Factors relating to the impact of the breach

The Authority does not hold PwC directly responsible for the losses resulting from LCF's collapse. However, by failing to report its reasonable belief about potential fraud at LCF, PwC failed to make the Authority aware of information which may have been materially significant to it.

(ii) Factors relating to the nature of the breach

Auditors of regulated firms, by the nature of their work, have a unique insight into how those firms are run and managed. As such, they play an important role in alerting the Authority to issues that may be of material

significance to it as they are required to do under Regulation 2. Speed of reporting issues is vitally important given the potential consequences of consumer harm, financial crime, or other risks to the Authority's objectives.

During the LCF Audit, PwC formed a reasonable belief that LCF may have been involved in fraudulent activity but failed to report that belief (and information and opinions relating thereto) as required at any point during the Relevant Period.

PwC's breach was serious. PwC was aware that LCF offered high risk bonds, was experiencing (and targeting) rapid growth, and was targeting retail investors. Furthermore, in light of (amongst other things) LCF's failure to co-operate (including the extreme amount of basic information which had been requested but not provided) and LCF's provision of inaccurate and/or misleading information to PwC, the Audit Team had suspicions that LCF might be involved in a potential fraud from very early on in the audit. PwC failed to report its suspicions or the facts and matters that gave rise to them to the Authority at any point during the Relevant Period.

(iii) Factors relevant to whether the breach was reckless or deliberate

PwC's breach was not reckless or deliberate.

6.7. DEPP 6.5A.2G(11) lists factors that are likely to be considered "level 4 or 5 factors". Of these, the Authority considers the following factor to be relevant:

- (i) The breach created a significant risk that financial crime would be facilitated, occasioned or otherwise occur by not reporting the potential risk of fraud to the Authority.

6.8. DEPP 6.5A.2G(12) lists the factors that are likely to be considered "level 1 or 2 or 3 factors". Of these, the Authority considers the following factors to be relevant:

- (i) Little, or no, profits were made or losses avoided as a result of the breach.
- (ii) The breach was committed negligently.

6.9. Taking all of the above into account, the Authority considers the seriousness of the breach to be level 3. The Step 2 figure is £15,000,000.

### **Step 3: mitigating and aggravating factors**

- 6.10. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of financial penalty arrived at after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.
- 6.11. The Authority has determined that there are no aggravating or mitigating factors.
- 6.12. The figure after Step 3 is therefore £15,000,000.

### **Step 4: adjustment for deterrence**

- 6.13. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.
- 6.14. The Authority considers that the Step 3 figure of £15,000,000 represents a sufficient deterrent to PwC and other auditors and so has not increased the penalty at Step 4.
- 6.15. The figure after Step 4 is therefore £15,000,000.

### **Step 5: settlement discount**

- 6.16. There is no settlement discount. The figure after Step 5 is therefore £15,000,000.

### **Penalty**

- 6.17. The Authority therefore hereby imposes a total financial penalty of £15,000,000 on PwC for contravening section 342 of the Act and Regulation 2.

## **7. PROCEDURAL MATTERS**

- 7.1. This Notice is given to PwC under and in accordance with the section 390 of the Act.
- 7.2. The following statutory rights are important.

### **Decision maker**

- 7.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

### **Manner and time for payment**

- 7.4. The financial penalty must be paid in full by PwC to the Authority no later than 30 August 2024.

### **If the financial penalty is not paid**

- 7.5. If all or any of the financial penalty is outstanding on 1 day after the date above, the Authority may recover the outstanding amount as a debt owed by PwC and due to the Authority.

### **Publicity**

- 7.6. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the Authority must publish such information about the matter to which this Notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to PwC or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
- 7.7. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

### **Authority contact**

- 7.8. For more information concerning this matter generally, contact Gareth Buttrill at the Authority (email: [gareth.buttrill@fca.org.uk](mailto:gareth.buttrill@fca.org.uk)).

**Kerralie Wallbridge**

**Head of Department**

**Financial Conduct Authority, Enforcement and Market Oversight Division**



## **ANNEX A**

### **RELEVANT STATUTORY AND REGULATORY PROVISIONS**

#### **Financial Services and Markets Act 2000**

1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include the integrity objectives (protecting and enhancing the integrity of the UK financial system).
2. Pursuant to section 206(1) of the Act, if the Authority considers that an authorised person has contravened a requirement imposed on him by or under the Act, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate.

#### Section 342 of the Act

3. Section 342 information given by auditor or actuary to a regulator:

*"(1) This section applies to a person who is, or has been, an auditor of an authorised person or recognised investment exchange, appointed under or as a result of a statutory provision.*

*(2) This section also applies to a person who is, or has been, an actuary acting for an authorised person and appointed under or as a result of a statutory provision.*

*(3) An auditor or actuary does not contravene any duty to which he is subject merely because he gives to a regulator—*

*(a) information on a matter of which he has, or had, become aware in his capacity as auditor of, or actuary acting for, the authorised person or recognised investment exchange, or*

*(b) his opinion on such a matter,*

*if he is acting in good faith and he reasonably believes that the information or opinion is relevant to any functions of that regulator.*

*(4) Subsection (3) applies whether or not the auditor or actuary is responding to a request from the regulator.*

*(5) The Treasury may make regulations prescribing circumstances in which an auditor or actuary must communicate matters to a regulator as mentioned in*

*subsection (3).*

*(6) It is the duty of an auditor or actuary to whom any such regulations apply to communicate a matter to a regulator in the circumstances prescribed by the regulations.*

*(6A) If the authorised person concerned is a credit institution or an investment firm, and an auditor or actuary communicates a matter to a regulator in accordance with the regulations, the matter must be disclosed simultaneously to the management body of the authorised person, unless there are compelling reasons not to do so.*

*(7) The matters to be communicated to a regulator in accordance with the regulations may include matters relating to persons other than the authorised person or recognised investment exchange concerned.*

*(8) In subsection (6A) "credit institution" and "investment firm" have the same meaning as in Article 4(1) of the capital requirements regulation."*

#### Section 345 of the Act

#### 4. Section 345 disciplinary measures:

*"(1) Subsection (2) applies if it appears to the FCA that an auditor or actuary to whom section 342 applies—*

*(a) has failed to comply with a duty imposed on the auditor or actuary by rules made by the FCA, or*

*(b) has failed to comply with a duty imposed under this Act to communicate information to the FCA.*

*(2) The FCA may do one or more of the following—*

*(a) disqualify the auditor or actuary from being the auditor of, or (as the case may be) from acting as an actuary for, any authorised person or any particular class of authorised person;*

*(b) disqualify the auditor from being the auditor of any recognised investment exchange or any particular class of recognised investment exchange;*

*(c) publish a statement to the effect that it appears to the FCA that the auditor or*

*(as the case may be) actuary has failed to comply with the duty;*

*(d) impose on the auditor or actuary a penalty, payable to the FCA, of such amount as the FCA considers appropriate.*

*(3) If an auditor or actuary has been disqualified by the PRA under section 345A(4)(a), the FCA may disqualify the auditor or actuary, so long as the disqualification under that provision remains in force, from being the auditor of, or (as the case may be) from acting as an actuary for—*

*(a) any FCA-authorised person,*

*(b) any particular class of FCA-authorised person,*

*(c) any recognised investment exchange, or*

*(d) any particular class of recognised investment exchange.*

*(4) In subsection (3) "FCA-authorised person" means an authorised person who is not a PRA-authorised person.*

*(5) Where under subsection (2) or (3) the FCA disqualifies a person from being the auditor of an authorised person or recognised investment exchange or class of authorised person or recognised investment exchange and that authorised person or recognised investment exchange is also, or any person within that class is also, a recognised clearing house or recognised CSD, the FCA must —*

*(a) notify the Bank of England, and*

*(b) notify the disqualified person that it has made a notification under paragraph (a).*

*(6) The FCA may remove any disqualification imposed under paragraph (a) or (b) of subsection (2) if satisfied that the disqualified person will in future comply with the duty in question.*

*(7) The FCA may at any time remove any disqualification imposed under subsection (3)."*

**Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001 (SI 2001/2587) (“the Reporting Regulations”)**

5. Regulation 2: Circumstances in which an auditor is to communicate:

*“(1) An auditor to whom section 342 ... of the Act applies must communicate to the FCA information on, or his opinion on, matters mentioned in section 342(3)(a) ... of the Act (matters of which he has, or had, become aware in his capacity as auditor of an authorised person or recognised body or as auditor of a person who has close links with an authorised person or recognised body) in the following circumstances.*

*(2) The circumstances are that —*

*(a) the auditor reasonably believes that, as regards the person concerned—*

*(i) there is or has been, or may be or may have been, a contravention of any relevant requirement that applies to the person concerned; and*

*(ii) that contravention may be of material significance to the FCA in determining whether to exercise, in relation to the person concerned, any functions conferred on that regulator by or under any provision of the Act other than Part VI;*

*(b) the auditor reasonably believes that the information on, or his opinion on, those matters may be of material significance to the FCA in determining whether the person concerned satisfies and will continue to satisfy the threshold conditions [...];*

*(c) the auditor reasonably believes that the person concerned is not, may not be or may cease to be a going concern;*

*(d) [...]*

*(e) [...]*”.

6. Under Regulation 1 of the Reporting Regulations, “*relevant requirement*” is and was at all material times defined as meaning (as relevant here):

*“a requirement which is imposed by or under any provision of the Act other than Part VI (listing) and which relates to authorisation under the Act (whether by way of permission under Part 4A of the Act or otherwise) or to the carrying on of any regulated activity”.*

7. In referring to the “threshold conditions” the Reporting Regulations are referring to the minimum conditions that all authorised firms are required to satisfy. As relevant here all authorised firms are required to satisfy the Authority that they are fit and proper having regard to all the circumstances including whether those who manage the firm’s affairs have adequate skills and experience and act with probity (COND 2.5.1A of the Authority’s Handbook).

## **RULES AND GUIDANCE**

### Relevant requirements

8. The following were “relevant requirements” that applied to LCF during the Relevant Period:
  - 8.1 Principle 1 – *“A firm must conduct its business with integrity.”*
  - 8.2 SYSC 6.1.1 R - *“A firm must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm including its managers, employees and appointed representatives (or where applicable, tied agents) with its obligations under the regulatory system and for countering the risk that the firm might be used to further financial crime.”*
9. As per PERG 3.2.2R Principle 1 applies to the communication and approval of financial promotions which if communicated by an unauthorised person without approval would contravene section 21(1) of the Act.
10. As per SYSC 1 Annex 1 Part 2.13 R SYSC 6.1.1R applies with respect to the carrying on of unregulated activities in a prudential context, which is the context in which the activities carried on by a firm have, or might reasonably be regarded as likely to have, a negative effect on matters including the integrity of the UK financial system and the ability of the firm to meet the “fit and proper” test in threshold condition 2E and 3D (Suitability).

### DEPP

11. Chapter 6 of DEPP, which forms part of the Authority’s Handbook, sets out the Authority’s statement of policy with respect to the imposition and amount of financial penalties under the Act. In particular, DEPP 6.5A sets out the five steps for penalties imposed on firms.

## Enforcement Guide

12. The Enforcement Guide sets out the Authority's approach to taking disciplinary action. The Authority's approach to financial penalties and suspensions (including restrictions) is set out in Chapter 7 of the Enforcement Guide.

## **ANNEX B**

### **EXTRACTS FROM THE INTERNATIONAL STANDARD ON AUDITING**

#### **ISA (UK) 250A**

1. Paragraph A10: *"As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required [...] are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements."*
2. Paragraph 28: *"If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity."*

#### **ISA (UK) 250B**

3. Paragraph 14: *"When the matter giving rise to a statutory duty to make a report direct to a regulator casts doubt on the integrity of those charged with governance or their competence to conduct the business of the regulated entity, the auditor shall (in the UK, subject to compliance with legislation relating to "tipping off") make the report to the regulator as soon as practicable and without informing those charged with governance in advance."*
4. Paragraph A25: *"In assessing the effect of an apparent breach, the auditor takes into account the quantity and type of evidence concerning such a matter which may reasonably be expected to be available. If the auditor concludes that the auditor has been prevented from obtaining all such evidence concerning a matter which may give rise to a duty to report, the auditor would normally make a report direct to the regulator as soon as practicable."*
5. Paragraph A34: *"Speed of reporting is essential where the circumstances cause the auditor no longer to have confidence in the integrity of those charged with governance. In such circumstances, there may be a serious and immediate threat to the interests of depositors or other persons for whose protection the regulator is required to act; for example where the auditor believes that a fraud or other irregularity may have been committed by, or with the knowledge of, those charged with governance, or have evidence of the intention of those charged with governance to commit or condone a suspected fraud or other irregularity."*