It should be all over for the Big 4: the corruption of ...

Published: January 14, 2026, 8:57 pm

The combined committee report from the House of Commons on the failure of Carillion provides some 'interesting' reading this morning. The findings on the company itself are summarised in this one paragraph:

Carillion's business model was an unsustainable dash for cash. The mystery is not that it collapsed, but how it kept going for so long. Carillion's acquisitions lacked a coherent strategy beyond removing competitors from the market, yet failed to generate higher margins. Purchases were funded through rising debt and stored up pensions problems for the future. Similarly, expansions into overseas markets were driven by optimism rather than any strategic expertise. Carillion's directors blamed a few rogue contracts in alien business environments, such as with Msheireb Properties in Qatar, for the company's demise. But if they had had their way, they would have won 13 contracts in that country. The truth is that, in acquisitions, debt and international expansion, Carillion became increasingly reckless in the pursuit of growth. In doing so, it had scant regard for long-term sustainability or the impact on employees, pensioners and suppliers.

My concern is with the systemic issues, and that means the auditors and their regulators. Of KPMG the committees say:

KPMG audited Carillion for 19 years, pocketing £29 million in the process. Not once during that time did they qualify their audit opinion on the financial statements, instead signing off the figures put in front of them by the company's directors. Yet, had KPMG been prepared to challenge management, the warning signs were there in highly questionable assumptions about construction contract revenue and the intangible asset of goodwill accumulated in historic acquisitions. These assumptions were fundamental to the picture of corporate health presented in audited annual accounts. In failing to exercise–and voice–professional scepticism towards Carillion's aggressive accounting judgements, KPMG was complicit in them. It should take its own share of responsibility for the consequences.

Deloitte acted as internal auditors. The report is little kinder to them:

Deloitte were responsible for advising Carillion's board on risk management and financial controls, failings in the business that proved terminal. Deloitte were either unable to identify effectively to the board the risks associated with their business practices, unwilling to do so, or too readily ignored them. (Paragraph 125)

The Financial Reporting Council regulates both firms. Of their role the committees say:

While we welcome the swift announcement of investigations into the audit of Carillion and the conduct of the Finance Directors responsible for the accounts, **we have little faith in the ability of the FRC to complete important investigations in a timely manner**. ***We recommend changes to ensure that all directors who exert influence over financial statements can be investigated and punished as part of the same investigation, not just those with accounting qualifications***.

I added the emphasis: it is an opinion I have long held. The committee added:

The FRC ***was far too passive*** in relation to Carillion's financial reporting. It should have followed up its identification of several failings in Carillion's 2015 accounts with subsequent monitoring. Its limited intervention in July 2017 clearly failed to deter the company in persisting with its over-optimistic presentation of financial information. The FRC was instead happy to walk away after securing box-ticking disclosures of information. It was timid in challenging Carillion on the inadequate and questionable nature of the financial information it provided and wholly ineffective in taking to task the auditors who had responsibility for ensuring their veracity.

What's to conclude?

First, mates can't regulate mates.

Second, no one can audit for 29 years in a row and be objective.

Third, the audit market has failed.

Fourth, without decent auditors and non-execs (the Committees say Carillion had just one who served with credit) capitalism as we know it is just a gravy train for those acting in their own self-interest.

Fifth, it's not clear where those people of the required ethical standing are to come from, but we have to try.

What is clear is that the failings are systemic.

The Big 4 have failed.

The FRC has failed.

Our markets are at risk as a result.

Nothing less than reform will do. And saying so is not to challenge markets: it is to support them. It is the status quo that threatens market viability. That is why it must be swept away, and nothing less will do. The corruption of markets has to end starting with complete reform of accounting.