

KPMG and the gravy train

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As [The Guardian](#) reports this morning:

KPMG, the auditing firm that gave Carillion a clean bill of health, has reported a leap in profits that will result in the average pay of its 635 partners soaring from £519,000 to more than £600,000 each.

Only months after KPMG was accused by MPs of being part of a “cosy club” and “complicit” in the run-up to the collapse of the construction and government outsourcing company, the accountancy group reported an 8% rise in revenue to £2.3bn in the 12 months to 30 September. Profits surged 18% to £365m.

There are two interpretations of this. One is that the failure was late in the financial year so maybe we would not see an impact. And it is true that KPMG have increased their provision for claims against the firm, so maybe the accounts are fair despite the impact of Carillion.

Alternatively, there is the fact that these accounts confirm what many who have campaigned on Big 4 reform have long thought, which is that these firms will always do well in the current structure in which they are organised, come what may. That is precisely because a large part of that £600,000 a year is not what might properly be called profit.

A profit in this context is a reward for entrepreneurial activity. This is a measure of human endeavour. But that is not what the KPMG partners are paid for. I simply do not think they are worth that much, each. They are good, maybe (and even the Financial Reporting Council is not convinced they are) but they are not that good. Rather, much of that £600,000 is what in economic terms is called rent. That is the return for being in the right place, at the right time, when the rules effectively require that you hire a Big 4 firm and by Buggin’s choice someone had to hire KPMG. It’s just a reward for turning up in a system that has failed.

Call it if you will the reward for the grant of a state monopoly.

Or welfare for very rich accountants.

Or even state-aid.

That's how these firms make so much.

And the answer is to break the monopoly. Which they are resisting, very strongly. Of course. Why would they want to break the gravy train?