The Official Receiver has to get the case against KPMG ...

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The Financial Times has reported that:

The UK agency tasked with unwinding Carillion is preparing to sue KPMG for £250m over alleged negligence in its audits of the outsourcing group that collapsed in 2018.

The significant claim will be the latest blow to the Big Four accounting firm, which is also under investigation by regulators for its work on Carillion. It is expected to be the first time that liquidators working for the British government have attempted to sue a large audit firm to recoup losses from a major insolvency.

I will be candid in saying that I welcome this. I believe that auditors have failed in their duty, and most especially in that which requires that they check that a company is solvent when it comes to paying dividends. It has been grossly negligent that they have based this test on the stated assets of the parent company alone and not that of the group as a whole, which Prof Adam Leaver of Sheffield University and I are showing can be wildly different (and always in favour of the parent company, for logical and systemic reasons) in research that we are undertaking. The reliance on this test is at the route of the Carillion corporate failure.

But I should add that I hope that this is not a fair reflection of the case that the Official Receiver intends to bring:

The official receiver, a civil servant employed by the Insolvency Service to liquidate Carillion, has claimed in legal documents that the outsourcer's board of directors believed the business was "profitable and sustainable" as a result of KPMG's clean audit opinions. It said the unqualified audits led the directors to pay out almost £250m in dividends and advisory fees over two years.

This gets the causality wrong. The directors cannot rely on the auditors. The auditors rely on the assurances of the directors. The claim has to be that the auditors failed in their duty to protect the creditors of the company in agreeing with the director's view that the company was solvent and able to pay dividends when that was not the case.

Such an action could succeed, I think. I am not convinced the one noted would. They have to get their sequencing right, and we badly need them to do so if the pressure to build the resilient companies that we need is to be sustained.