

Is the audit market dying, and if so, what next? Has th...

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Two reports have added piquancy [to the series of Audit Briefings](#) that I am beginning to feature on this blog, the second of which will be out in the next couple of days.

As Sky [reported over the weekend](#):

The Official Receiver is advancing a legal claim against the auditors of Carillion, the collapsed construction giant, that could target as much as £1bn in damages.

Sky News understands that the liquidators of the former FTSE-100 constituent filed a claim form against KPMG on Friday - a move which gives the claimant four months to submit more details of its case.

Carillion collapsed in 2018 owing approximately £7 billion, having had a clean audit report from KPMG before doing so.

In fairness, we do not know what the basis of this legal claim is going to be as yet, but the likelihood that it will include an allegation that the auditors should have prevented the payment of a dividend of more than £200 million shortly before the company collapsed is high.

The inability of auditors to apparently work out when a company might, or may not, pay a dividend is an issue to which I am paying considerable attention at present. I wrote about it only a couple of weeks ago, [asking whether the problem of potentially illegal dividends is widespread within the FTSE](#). The chance to test this in court would be very welcome. When the evidence is that at least 20% of large companies payout over an extended period more by way of dividend than they earn by way of profit the likelihood that there is something profoundly wrong in the way that legal dividends are estimated would appear to be very high.

The second story is from the [Financial Times this morning and notes](#):

HSBC bosses fear they will struggle to convince some of the UK's largest accounting firms to bid for the bank's \$94m-a-year audit after initial outreach to contenders

suggested a number of Big Four firms were reluctant to take on the role.

HSBC is the UK's largest lender. It had a track record over many years of also having g the largest, by length, set of UK accounts. The [latest version](#) at only 380 pages may not quite win that award, but the scale of the audit can be imagined. The fact that the accounts are also produced in Chinses, where they must also be true and fair, adds to the challenge.

That, though, is not the issue. The issue is that if only PWC, as the existing auditor of the company, are willing to tender for this work then for all practical purposes there has ceased to be an audit market in the UK. The trouble with that fact is that the concept of an audit market underpins the whole approach that the government has to audit regulation. If the element of choice of auditor is removed from companies, as it would seem it might be in this case, then what is left is a charade of there being audit independence because the opinion of an alternative opinion has ceased to exist.

What might that mean for the future of audit? That is a crucial question to ask. The obvious answer is that another audit model is required. It may be that the one we have has indeed run out of road. The sheer scale of companies and their appetite for risk, that audit firms are too willing to fuel through their consultancy arms, may have defeated it.

What is the alternative? There is only one that I can see, and that is audit by a state agency. We do, of course, have one. It is the National Audit Office. It has shown itself more than willing to offer the types of critical opinion so rarely found in the commercial audit market.

The government has no discussion of this option in its latest consultation on the future of audit, which is very much focussed upon tinkering with the status quo, and on reinforcing the audit market. But is that market is dead - and it looks increasingly as if it will be - the time for more radical thinking has arrived.

It's either that or we abandon the concept of audit and let large corporations run amok. I know which option I prefer.