

Funding the Future

The operations of the Big 4 accountants within tax have...

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There is [an interesting thread](#) from Tom Tugendhat MP on Twitter. He is, of course, [a Tory and chair of the Foreign Affairs Committee](#). He is also the only known challenger to Boris Johnson to be Tory leader, as yet. He said as part of this thread:



He then concluded



I have, of course, been saying this for a long time. Offshore, whether located in those places often thought of as tax havens or within the City of London, where the term was actually invented in the 1950s to describe unregulated transactions taking place in the UK between two parties who were not UK resident that did, as a consequence, thereafter deliberately fall outside the scope of UK regulation, which is how the London laundromat came into operation, has always been an exercise intended to undermine democracy.

Whatever the veneer that the offshore service suppliers, whether they be bankers, lawyers or accountants, wish to put on their activities, the intention of the offshore activity has always been to undermine the chosen will of democratically elected governments with regard to the raising of taxation, the operation of regulation and the use of state resources. I suggest that it is really is not possible to be more anti-democratic than that.

For that reason when I was once asked to name the four biggest threats to democracy that I could think of I rather suspect that my questioner thought that I would refer to the likes of North Korea or Iran. I actually named the Big Four firms of accountants - Deloitte, PwC, EY and KPMG. That is because, quite literally, the world of offshore could not exist without them. As [my work with Saila Stausholm has shown](#), they provide the underpinning to all the major tax havens of the world, including London, of course. As we noted:

TABLE 8 – SECRECY JURISDICTION PRESENCE

Firm	Number of secrecy jurisdictions where we have found evidence of the firm being present	Total number of offices in secrecy jurisdictions based on our research	Number of secrecy jurisdictions with a single office based on our research	Average number of offices per secrecy jurisdiction location in which the firm had a presence based on our research
Deloitte	35	75	26	2.14
PwC	34	76	25	2.24
EY	36	81	29	2.25
KPMG	40	80	33	2.00
Total (where appropriate)		312		

Overall the firms are in 43 secrecy jurisdictions between them out of the list of 53 such locations in total that we used for research purposes, as explained in the appendix to this report.

To put this in context this table suggests the total number of locations that these firms have:

TABLE 7 – OFFICES PER JURISDICTION

Firm	Number of jurisdictions where the firm usually says they are present	Number of jurisdictions where we have found evidence of the firm being present	Total number of offices based on our research	Number of jurisdictions with a single office based on our research	Average number of offices per jurisdiction based on our research
Deloitte	140	157	731	87	4.66
PwC	157	158	737	91	4.66

Between 20 and 25% of all locations that the Big 4 serve are tax havens. And they are not there to service local needs. Our work tested this in two ways:

FIGURE 3 – BIG FOUR TOP JURISDICTIONS
Top 25 jurisdictions by total number of offices



It may be unsurprising that the Big Four are heavily represented in the largest economies and that their presence in many of the world's poorest jurisdictions is limited but their over-representation in Nordic countries requires explanation. In these countries, alone in the world it seems, these firms provide services to the entire business community, whatever its size, and as such are located in many towns as well as major cities. So strong is this trend that the Big Four firms have 23 offices between them in Iceland, a country of just 336,000 people.

Then we tested again, for the locations with the greatest number of offices proportional to the size of the economy and found this:

Figure 3 suggests on first glance that the presence of the Big Four firms is directly linked to the size of the market in the place in which they operate. To test whether is the case we compared the number of offices to market size measured in terms of population and GDP. The evidence that emerged was clear: the number of offices the Big Four operate in a jurisdiction is not proportional to the size of a country or its economy. Figure 4 shows the number of Big Four offices in a jurisdiction per head of population:

FIGURE 4 – BIG FOUR OFFICES VS POPULATION
Top 25 jurisdictions relative to population size



As noted in the previous section, the Big 4 seem to rarely serve local community need outside the Nordic countries. So why are they in all these tax haven locations? It can only be to service international interests - or offshore, in other words.

And since offshore - most especially when undertaken behind the veil of secrecy that many of these places still provide - is heavily associated with corruption - then offshore activity does represent a threat.

I stress when saying so that I am not suggesting for a moment that the Big 4 firms do in fact supply the corrupt services. There is no reason for them to do so. But what they do supply is the underpinning of the architecture of the financial services industry of all these locations, largely by acting as auditors to the local banks who are, by large, branches of banks located elsewhere, adding in that indirect way the underpinning for this offshore economy.

What I also stress is that they do not need that direct relationship with the corruption to be its facilitators. It is precisely by providing this architecture in which corruption can take place that these firms pose a threat, even if indirect, to democracy itself.

My challenge to every partner in the Big Four firms (and those accountants and auditors outside that group that copy them), is in that case very simple. It is to ask them what are they going to do to end the threat to democracy that their firm's operations in tax havens represent? If these firms shut down their offshore operations then this problem would be well on its way to being solved. So why won't they take that necessary action?