KPMG braced for record fine over audit of collapsed Carillion

KPMG is in advanced talks with regulators about a record fine running into tens of millions of pounds for failings in its auditing of Carillion, the construction company which collapsed in 2018 with the loss of thousands of jobs.

Sky News has learnt that discussions between the accountancy firm and the Financial Reporting Council (FRC) are close to being finalised, with an announcement possible in the coming weeks.

City sources said the two sides had been negotiating penalties of between £25m and £30m, before the application of a discount on the basis of KPMG's co-operation with the probe.

After the discount is applied, the total fine is expected to land in the region of £20m, the sources added.

Sources cautioned, however, that the figures still remained subject to change, with one suggesting that they could yet be larger.

Technically, the FRC is conducting two inquiries into KPMG's work on Carillion, one covering the financial year 2013 and the other encompassing the following four financial years.

If confirmed, it would finally draw a line under the 'big four' audit firm's role in one of Britain's most notorious corporate collapses of recent years.

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Carillion’s insolvency, which came after months of intensive efforts to salvage a business which played a major role in the country’s public sector infrastructure programme, sparked a firestorm of criticism over its directors’ conduct and that of its advisers.

It also served as a catalyst for calls for wide-ranging reforms of the audit profession – many of which have yet to be implemented by the government.

KPMG has already been hit with a huge fine over its role in the Carillion scandal.

In July last year, the firm had a £14.4m sanction imposed on it for misleading the FRC during spot-checks on its audit of the construction group and Regenersis, an outsourcer.

Like its big four rivals Deloitte, EY and PricewaterhouseCoopers, it has also been hit with a multitude of other fines for audit failings in the last five years.

The scope and details of sanctions that will be applied by the FRC to former KPMG partners involved in the Carillion audit was unclear this weekend.

Earlier this year, KPMG and the Official Receiver agreed to settle a £1.3bn claim on behalf of Carillion's creditors alleging negligence on the part of the audit firm.

The terms were not disclosed.

The fallout from the company's collapse has also ensnared former board members.

In July, Zafar Khan, who served as its group finance director for less than a year prior to its implosion, was handed an 11-year boardroom ban by the government's Insolvency Service.

It was the first such ban imposed under the Company Director Disqualification Act against any former Carillion executive, although proceedings against a number of others, including former chief executive Richard Howson, remain ongoing.

In total, eight former Carillion directors are facing bans following the launch of legal proceedings authorised by Kwasi Kwarteng, the then business secretary, in January 2021.

Last year, Mr Khan, Mr Howson and Richard Adam, who also served as Carillion's finance chief, were fined a total of close to £1m for issuing misleading statements to investors about the state of the company’s finances.

The trio were reported to be appealing against the fines imposed by the Financial Conduct Authority.

Carillion, which was involved in building and maintaining hospitals and roads, and delivering millions of school meals, went bust owing close to £7bn.

At the time of its collapse, Carillion held approximately 450 construction and service contracts across government.

It employed more than 43,000 people, including 18,000 in the UK.

In a scathing report on the company’s corporate governance, the Commons business select committee said: “As a large company and competitive bidder, Carillion was well-placed to win contracts.

“Its failings in subsequently managing them to generate profit was masked for a long time by a continuing stream of new work and… accounting practices that precluded an accurate assessment of the state of contracts.”

KPMG served as Carillion’s auditor for almost two decades, earning a total of £29m for its audit work.

Last month, the Financial Times reported that the government was set to omit audit reform legislation from the King’s Speech in November.

Under plans already agreed to by ministers, the FRC would be replaced by a statutory regulator called the Audit, Reporting and Governance Authority (ARGA).

On Saturday, both KPMG and the FRC declined to comment.