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KPMG faces $306M negligence claim over Carillion audit



By Neil Hodge | Wed, May 13, 2020 12:04 PM

U.K. government liquidators are preparing to sue KPMG for £250 million (U.S. $306 million) over alleged negligence in its audits of Carillion, the outsourcing group that collapsed in 2018 with debts of more than £1.3 billion (U.S. $1.6 billion).

The ***Financial Times*** reports the official receiver, which collects assets for creditors, claims the contractor's board paid out £234.2 million (U.S. $286 million) in dividends, plus £17 million (U.S. $20.8 million) in advisory fees, because they believed the business was "profitable and sustainable" as a result of the audit, but "which would not have been paid if the misstatements in the financial statements had been detected by KPMG."

The claims surrounding the dividend payouts are particularly damning given that in the five years from 2012 to 2016, the company paid out £63 million (U.S. $77 million) more in dividends than it generated in cash from its operations.

The proposed claim will allege KPMG failed to detect misstatements in the accounting of revenue and liabilities of its construction contracts and it was negligent in its accounting for goodwill, which is the future value of companies it had purchased.

In 2017, reviews of Carillion's contracts **resulted in a writedown** of three projects by £845 million (U.S. $1 billion), as well as an impairment of goodwill totaling £134 million (U.S. $164 million) in relation to its construction business.

Lawyers for the official receiver said: "KPMG's breaches of contract and duty caused [Carillion] to incur losses which it would not have done if it had been aware of its true financial position."

If the claim goes ahead, it is expected to be the first time liquidators working for the U.K. government have attempted to sue one of the Big Four firms to recoup losses from a major insolvency.

Carillion, which employed about 19,000 people in the United Kingdom and had major government contracts (including for the construction of the HS2 rail line), issued a profit warning four months after KPMG signed off on its accounts in 2017. It collapsed in January 2018—just five months later—having a pension deficit of about £800 million (U.S. $978 million), owing more than £1.3 billion (U.S. $1.6 billion) to its banks, but holding just £29 million (U.S. $35.5 million) in cash.

The legal claim is another blow for KPMG, whose audit work for the company between 2013 and 2017 is under investigation by the U.K.'s corporate governance regulator, the **Financial Reporting Council**, which is expected to publish its initial findings this summer.

In its **Carillion inquiry report** released in May 2018, Members of Parliament accused KPMG of being "complicit" in the company's failure by "failing to exercise and voice professional scepticism."

KPMG declined to comment for this article. The firm has previously said it conducted its role as Carillion's auditor "appropriately and responsibly."

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