Sir,

When it comes to apportioning blame for Carillion's dramatic demise, fingers are being pointed in all directions. But most are missing the real culprit: faulty accounts appear to have allowed Carillion to overstate profits and capital, thereby permitting them to load up on debt while paying out cash dividends and bonuses.

Prudent accounts are a fundamental pillar of the UK's capital maintenance regime: profits and capital may not be overstated. It is also illegal under Company Law to pay dividends out of capital. Anticipated revenues from long-term contracts cannot count as distributable capital, and foreseeable losses and liabilities need to be taken into account. All this is clear.

Carillion's accounts reported profit that was anticipated. They also seemingly failed to apply prudent judgment in determining impairments and liabilities. This is akin to an airline allowing a plane to fly with a fuel gauge that gives overstated readings, implicitly assuming that mid-flight refuelling (i.e. injections of fresh capital)would be available if needed. Given the dire consequences of running out of fuel, would we take this risk?

So yes, Carillion's directors need to be investigated for the company's collapse, but so too should the auditor, KPMG. If the auditor claims they were following the required standards (as they have in the past), then the problem is far deeper; and potentially endemic. Faulty standards would mean that accounts today cannot be relied on to protect capital, with devastating consequences for all stakeholders who depend on businesses remaining going concerns.

Carillion is yet another canary in the coal mine. How many more do we need for the Government to properly scrutinise our accounting rules?

Signatories

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