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THE FUTURE OF AUDITING PROFESSION IN THE FACE OF AUDITORS' LIABILITY: A REVIEW OF LITERATURE

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Abstract

This study examined the global issue of auditors' negligence cases, which have led to doubts about the reliability of audit reports and raised concerns about the future of auditing profession. This research conducted a thorough literature review to deeply explore auditors' roles and responsibilities. It investigated the legal responsibilities auditors face and their impact on the credibility of their reports, while considering approaches to mitigate these liabilities and the involvement of professional bodies. Findings indicated that auditors' legal liabilities significantly impair audit quality, the trustworthiness of audit reports, and overall professional skepticism. The research revealed the urgent need for improved risk assessment techniques to uphold audit integrity and credibility, while effectively addressing liability concerns. The conclusion is that in order to promote resiliency, trust, and adaptability in the profession, the future of auditing depends on redefining auditors' culpability. The study suggested collaboration among policymakers, professional associations, and standard-setting entities to establish legal and regulatory frameworks. Additionally, the study emphasized the value of ongoing professional development for audit firms and the cultivation of a culture of professional skepticism within the auditing profession.

Key words: Audit reports; Auditors' liability; Auditors' negligence; Credibility; Reliability

1.0 Introduction

Within the field of auditing, auditors' liability refers to the legal obligation placed upon them for any mistakes, mishaps, or carelessness they may experience while doing their duties. This liability may result from a number of things; including failing to detect fraud or financial statement irregularities, violating auditing standards, and not clearly communicating audit findings. Beattie et al. (1996) emphasized that auditors must follow professional standards and use due diligence in their audit activity because they may be held liable under both common law and statutory duties. The complexity of financial transactions, changing regulatory environments, and increased scrutiny from stakeholders and regulatory agencies are some of the factors that contribute to auditors' liability. Glory et al. (2024) pointed out that auditors have progressively embraced

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conservative auditing procedures and strict quality control measures to avoid potential hazards in response to increased litigation risks.

The consequences of audit liability can have a major effect on an auditor's reputation, capacity to make money, and clientele. Litigation cases or poor audit results can damage an auditor's reputation and reduce confidence from the general public, investors, and clients (Free, 1999). Moreover, the possibility of responsibility claims may result in high legal costs and compensation for damages, which could endanger the financial stability of smaller audit companies. Anantharaman et al. (2016) further noted that the responsibility of auditors could result in higher insurance costs and a reluctance on the part of auditors to work with high-risk customers or to innovate in their auditing procedures. In the end, these elements may jeopardize the efficacy of financial reporting monitoring and the quality of audits. The auditing profession has significant hurdles due to auditors' liability, which emphasizes the need for strict risk management and compliance procedures.

In 2023, Chinese regulators levied significant fines of 211.9 million yuan ($30.8 million) on Deloitte, the auditing firm, for their failure to adequately assess the asset quality of China Huarong Asset Management Co Ltd. Furthermore, Deloitte's operations in Beijing were suspended for three months due to their neglect of auditing responsibilities (Reuters, 2023).

The Australian Securities and Investment Commission (ASIC) launched legal proceedings against EC Audit Pty Ltd, citing their audits of Halifax's financial statements and profit or loss accounts for the fiscal years 2016, 2017, and 2018 as grounds for the lawsuit. ASIC alleged that EC Audit Pty Ltd violated the Corporations Act 2001 (Cth) by not conducting audits in accordance with auditing standards, among other deficiencies (Angela, 2021).

Amathus Drinks Plc and other plaintiffs initiated legal proceedings against EAGK LLP and another entity in a significant lawsuit dated 2023. The primary dispute centered on the acquisition of shares in a British company. According to Dominic et al. (2023), the plaintiffs accused the accountants of negligence, particularly for their failure to identify fraudulent activities during the preparation of the target company's official financial statements.

After the 2008 real estate crisis, Taylor Bean & Whitaker (TBW) declared bankruptcy following revelations of a multibillion-dollar fraud. This implicated TBW's founder and Colonial Bank executives, the lender that provided loans to TBW. Subsequently, the bankruptcy trustee filed a lawsuit against PwC, the auditing firm that audited the parent company of Colonial Bank, alleging PwC's failure to detect the fraud. The case, Taylor Bean & Whitaker Plan Trust v. PricewaterhouseCoopers LLP, Case No. 2013-033964-CA-01, eventually settled

during trial, highlighting the risks and potential liabilities faced by auditors and accountants when stakeholders rely on their assessments (The Guardian, 2023).

1.2. Auditors' Negligence in the "Dark Ages'

During the 1970s and 1980s, auditors faced a surge in negligence cases, earning this period the moniker "dark ages" of auditor liability, which spread globally, causing public consternation (Pacini et al., 2000). By mid-1994, the major UK accounting firms, then dubbed the "big six" (now the "big four"), grappled with over 625 cases seeking damages totaling £20 million (Beckett, 1994). Notably, PricewaterhouseCoopers settled for a substantial £68 million in 1999 concerning legal matters related to Robert Maxwell's enterprise, sparking concerns in the UK about an impending US-style litigation culture (Peel, 1999).

Internationally, the accounting industry faced similar legal challenges as the US's "big six" (now big four), setting aside $1.1 billion in 1993 alone for litigation battles and settlements (Dalton et al., 1994). Significant settlements continued in the USA, such as the $125 million paid by PricewaterhouseCoopers and Ernst & Young for their involvement in the Bank of Credit and Commerce International collapse (Trapp, 1999), and Ernst & Young's $335 million settlement with CUC International shareholders over audit-related concerns (Sanni, 2010; Peel, 1999).

The Enron scandal, leading to the sixth-largest US corporation's bankruptcy, shocked the corporate world, causing substantial investor losses (Rufai, 2008). It unveiled unethical practices by Arthur Andersen, Enron's external auditors, collaborating with business executives in activities like document fabrication and bribery

Auditors' Negligence in Developing Countries

Auditor negligence is not exclusive to developed nations. The Steinhoff International scandal underscored the apparent shortcomings of external auditors in South Africa, notably Deloitte, for their alleged failure to detect questionable accounting practices and inflated financial statements (Louw, 2018). Similarly, an inquiry by the South African Reserve Bank into the collapse of VBS Mutual Bank in 2018 revealed that PwC auditors neglected their professional duties by overlooking warning signs that could have averted the bank's downfall (South African Reserve Bank, 2018).

Tongaat Hulett, an agri-processing company, faced accusations of fraud and accounting irregularities leading to inflated profits. Deloitte and other external auditors' inability to detect these issues during audits tarnished public trust in both the company and the auditing profession, resulting in significant losses for shareholders (BBC News, 2019). In 2018, allegations surfaced against Resilient and Fortress, two South African real estate investment trusts, regarding their accounting

practices. PwC and Deloitte, the external auditors, faced criticism for failing to identify financial irregularities, raising doubts about their effectiveness in fulfilling their duties and protecting investor interests (Bloomberg, 2019). Auditor failures in detecting fraud and financial irregularities were also evident in the 2008 PT Bank Century incident in Indonesia and the 2019 Asuransi Jiwasraya scandal (The Jakarta Post, 2009, 2020).

The accounting scandal involving Bumi Resources exposed alleged negligence by Indonesian external auditors, particularly Ernst & Young (EY). The coal mining company was accused of fraudulent accounting practices and fabricating financial statements, with EY facing scrutiny for failing to identify these discrepancies during audits (Reuters, 2013). Similarly, in 2020, PT Bank Panin Tbk, one of Indonesia's major banks, faced accusations of fraud, with auditors from a Deloitte Touche Tohmatsu Limited member firm accused of negligence for overlooking abnormalities and suspicious transactions during audits (The Jakarta Post, 2020).
In Nigeria, Afribank Plc was accused of precipitating a crisis by misrepresenting its 2006 financial statements, despite auditors asserting the accuracy of the numbers (Sanni, 2010; Ibrahim, 2009). The revelation of long-standing falsification of accounting records at Cadbury (Nigeria) Plc in 2006 shocked the financial community once again, while accusations of share market manipulation involving African Petroleum Nigeria Plc in 2008–2009 added to the financial turmoil.

These instances of blatant and avoidable negligence raise questions about the credibility of the auditing profession, particularly when prominent firms like the Big Four are implicated. This study aims to address these critical issues and proposes solutions by examining auditor duties, liabilities, and strategies to mitigate risks. It also explores initiatives by professional bodies and offers insights into the future of the auditing profession, along with policy recommendations.

2.0. Review of Literature

2.1. Auditors' Duties and Responsibilities under Company Law

Auditor requirements can vary depending on the jurisdiction, with some provisions sharing similarities. In the United States, the Securities Exchange Act of 1934 and regulations of the U.S. Securities and Exchange Commission (SEC) govern auditors' roles. Section 10A of the Securities Exchange Act of 1934 mandates that shareholders of publicly traded corporations select auditors, supervised by independent directors in the audit committee. Auditors must adhere to the Public Company Accounting Oversight Board (PCAOB) and Generally Accepted Auditing Standards (GAAS), evaluating the possibility of material misstatements in financial statements and understanding the organization's internal controls (John & Jason, 2022; ODCE, 2018).

Post-audit, auditors provide reports on financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The opinion must affirm the

auditor's responsibilities and verify fair presentation of financial statements. For publicly traded companies, auditors evaluate and report on Internal Control over Financial Reporting (ICFR) per the Sarbanes-Oxley Act of 2002 (SOX), also reporting significant fraud-related misstatements to appropriate levels of management and the audit committee. Regulatory organizations like the SEC and PCAOB establish rules on auditor independence, non-audit services, and general compliance. Beyond statutory obligations, auditors must perform audits with due care and skill, as emphasized in cases like Re-Kingston Cotton Mill (1986) and Re-London and General Bank (1895) (Cheyo, 2015).

Company bylaws, the Companies Acts, and terms of appointment dictate limited company auditors' duties. They must understand or waive their responsibilities, including contractual duties, especially in non-statutory appointments, and comply with the Companies Act. These obligations apply to auditors of organizations like nationalized industries or local administrations (Cheyo, 2015). Auditors must clarify the nature of work and communicate any restrictions via audit reports for self-defense. The scope can vary from a comprehensive "audit" expressing opinion on financial statement correctness to a "review engagement" providing limited confidence (Cheyo, 2015). Business law dictates duties such as conducting audits with reasonable care and skill, executing assignments reasonably, and adhering to implied requirements of audit appointments.

2.2. Auditors' Duties and Responsibilities under Common Law and Equity

Auditors bear responsibilities during financial statement audits derived from equity and common law, shaped by established legal precedents and overarching legal principles (Al-Dhubaibi, 2020). In accordance with Hedley Byrne & Co Ltd v Heller & Partners Ltd [1964] AC 465, auditors must execute audit work with a reasonable degree of care, skill, and competence, owing their clients a duty aligned with standards of a reasonably competent auditor. As established in Caparo Industries Plc v. Dickman [1990] 2 AC 605, auditors must maintain independence in both practice and appearance throughout audits, offering impartial evaluations and unbiased scrutiny of management's assertions. Royal Bank of Scotland v. Bannerman Johnstone Maclay (2002) SLT 654 mandates auditors to conduct comprehensive audits, encompassing internal controls evaluation, substantive testing, review of supporting documentation, and collection of relevant audit evidence to form financial statement opinions. Compliance with Generally Accepted Auditing Standards (GAAS) is requisite for auditors to fulfill their duty of conducting meticulous audits.

According to WorldCom, Inc. Securities Litigation, 294 F. Supp. 2d 392 (S.D.N.Y. 2003), auditors are obligated to inform the company's management, audit committee, and board of directors of significant misstatements or irregularities

uncovered during audits, adhering to reporting regulations outlined by accounting and auditing standards. Swindon & District Co-operative Society Ltd v. Secretary of State for Trade and Industry [1986] Ch 571 underscores auditors' obligation to maintain confidentiality of client information obtained during audits, barring disclosure of private or privileged information without a court order or client consent.

2.3. Auditors' Duties and Responsibilities to Third Party

Auditors play a vital role in ensuring accuracy and financial integrity in organizational accounts. While their primary obligation is to the company employing them, reliance on audited financial accounts by third parties raises questions about potential liability (Baker & Prentice, 2008). Auditors, owing a duty of care to their clients, are expected to fulfill their responsibilities with professionalism, independence, and integrity. Although the concept of privity of contract traditionally limited auditors' obligations to their client, exceptions now extend their duty to third parties relying on audited financial statements. This underscores the importance of auditors executing their professional duties with due diligence and expertise.

2.3.1. The Privity of Contract Principle

In the past, an auditor's liability was confined to their contract with the client, with the privity of contract principle preventing third-party lawsuits against auditors for losses resulting from negligence or fraudulent claims in audited financial statements, as seen in Hedley Byrne & Co Ltd v. Heller & Partners Ltd (1964). However, the concept of privity of contract has evolved over time, expanding auditors' duty of care to new categories of third parties. Auditors may now owe a duty of care if they anticipate users will rely on audited financial statements (Adereti & Sanni, 2007; Jasleen, 2022). In Ultramares Corporation v. Touche (1931), auditors who know or should know third parties will rely on their financial information must exercise reasonable care. Auditors may be liable for negligent misstatements if they intentionally misrepresent facts or omit crucial information, leading third parties to rely on false financial reports, even without a direct contractual link (Caparo Industries Plc v. Dickman).

2.4. Liabilities of Auditors

2.4. 1. Criminal Liability

Auditors carry a significant responsibility to ensure financial transparency and the accuracy of financial records, with potential criminal repercussions for failure to do so (Henry et al., 2019). Deliberate manipulation or distortion of financial statements to deceive stakeholders constitutes fraudulent financial reporting, exemplified by the 2002 WorldCom Scandal, where Arthur Andersen faced allegations of witness tampering and obstruction of justice (Henry et al., 2019).

Auditors may face criminal charges for involvement in fraud schemes or illicit financial reporting activities, as seen in the HealthSouth scandal of 2003,

highlighting auditors' crucial role in detecting and exposing fraudulent practices (Henry et al., 2019). In cases like the Satyam Computer Services fraud (2009), PricewaterhouseCoopers (PwC) was accused of fabricating statements and presenting biased audit findings (Henry et al., 2019).

Securities fraud, such as approving deliberately fraudulent financial statements, as in the Enron crisis of 2001, can lead to criminal prosecution, as evidenced by Arthur Andersen's case (Henry et al., 2019). Similarly, involvement in insider trading, like in the KPMG and PCAOB Leak (2017), where KPMG partners traded stocks based on confidential information from the Public Company Accounting Oversight Board (PCAOB), can result in criminal charges.

Assistance in concealing the sources of illicit payments, as observed in the 2015 1MDB Scandal, may lead to criminal charges for auditors implicated in money laundering (Henry et al., 2019). Furthermore, involvement in bribery or corruption schemes, as seen in the Petrobras Corruption scandal in Brazil, can result in criminal penalties for auditors and other professionals (Henry et al., 2019).

2.4. 2. Civil Liabilities

Auditors are indispensable for ensuring the accuracy and reliability of financial statements, but the intricacy of auditing introduces stakeholders to risks of errors, negligence, or incompetence, potentially leading to financial losses and legal consequences (Haloush, 2021). Failure to meet the care, skill, and diligence standards of the auditing profession may render auditors liable for negligence, and they could face breach of contract lawsuits for failing to fulfill contractual obligations to clients.

The landmark case of Hedley Byrne & Co Ltd v. Heller & Partners Ltd [1964] AC 465 established auditors' duty of care, emphasizing caution when advising or informing clients due to the unpredictability of reliance (Haloush, 2021). International Standards on Auditing (ISA) by the International Auditing and Assurance Standards Board (IAASB) mandate auditors to adhere to professional standards set by reputable accounting authorities (Haloush, 2021), as underscored by cases like Caparo Industries plc v. Dickman [1990] 2 AC 605, which set the "three-fold test" prioritizing foreseeability, closeness, and fairness in assessing auditor negligence.

Auditors may be liable for fraud or negligent misrepresentation if they knowingly or recklessly provide false information (Haloush, 2021). Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976), illustrates auditors' liability under common law and statutes like the Securities Exchange Act of 1934 (Section 10(b)). In cases of negligent misrepresentation, such as BDO Seidman v. Hirshberg, 93 N.Y.2d 382

(1999), auditors may be held accountable if their assertions, reasonably relied upon, cause foreseeable loss. Kingston Cotton Mill Co. v. Latimer & Sons [1891] AC 1895 and Lavender v. Kurn, 327 A.2d 471 (1974), respectively, allow for contributory negligence or comparative fault defenses in some jurisdictions, potentially mitigating auditors' liability based on the client's fault and degrees of negligence.

2. 4.3. Credibility of Auditors' Reports in the Face of Auditors' Liability

To safeguard against potential liabilities, it is essential to uphold the integrity of auditors' reports. Auditors play a crucial role in ensuring the accuracy and reliability of financial statements, making their professional competence, independence, and integrity paramount, as highlighted in court cases like Escott v. Barchris Construction Corp. (1991), which sought to mitigate auditor liability for negligence. Throughout the auditing process, maintaining a critical approach and thorough examination of audit evidence, known as professional skepticism, is vital. This dedication to careful and unbiased analysis enhances the credibility of auditors' reports (IAASB, 2019). Adherence to relevant auditing standards, such as the International Standards on Auditing (ISAs) and the Generally Accepted Auditing Standards (GAAS), further bolsters the reliability of auditors' reports, ensuring a rigorous and consistent audit process (Deloitte, 2021).

Independence, both in practice and appearance, is fundamental to ensure unbiased reporting and mitigate conflicts of interest. Upholding independence criteria enhances stakeholders' confidence in auditors' work and the trustworthiness of their reports (EY, 2021).

Auditors are expected to maintain meticulous and well-documented audit files, serving as evidence of the work performed and the basis for their conclusions. Thorough documentation demonstrating professional judgment and rationale behind audit findings establishes the authenticity of auditors' reports (IAASB, 2019).

2.4. 4. Mitigating Against Liabilities

To mitigate the risks associated with their professional responsibilities, auditors employ various strategies. They adhere to professional norms and regulatory guidelines set forth by bodies like the International Auditing and Assurance Standards Board (IAASB) (KPMG, 2019). Continuous participation in professional development activities ensures ongoing enhancement of skills and knowledge.

Auditors are mandated to conduct their duties with due care and expertise, exercising skepticism and professional judgment in evaluating evidence and forming conclusions. Adherence to auditing standards and conventions, along with meticulous documentation of audit evidence, is essential (PwC, 2022). Explicit terms of engagement with clients are crucial, with engagement letters outlining objectives, limitations, conditions, duties, exclusions, and liability limitations (Deloitte, 2021).

Transparent communication of audit limitations to clients and stakeholders underscores that audits provide a reasonable assurance of financial statement accuracy rather than an absolute guarantee (EY, 2021). Upholding independence and neutrality is paramount, requiring auditors to identify and disclose any financial or personal relationships that may compromise objectivity (PwC, 2022).
Thorough documentation of audit procedures, including rationale, significant findings, and basis for conclusions, demonstrates an auditor's competency and diligence (IAASB, 2019). Efficient quality control systems in audit firms ensure adherence to relevant standards through procedures, policies, and monitoring mechanisms (IFAC, 2020).

Continuous risk assessment enables auditors to identify and evaluate potential risks that may affect the audit process or lead to legal repercussions, allowing for proactive risk mitigation strategies (Deloitte, 2021). Effective client management, facilitated by open and frequent communication, reduces conflicts and aligns client expectations (EY, 2021).
Gathering and appropriately documenting sufficient audit evidence strengthens conclusions and provides protection against future legal challenges (IAASB, 2019). Well-drafted engagement letters, outlining audit parameters, responsibilities, and liability limitations, serve as crucial legal documents supporting the auditor's defense and managing client expectations (PwC, 2022).
Professional indemnity insurance safeguards against liabilities arising from allegations of professional negligence, ensuring financial stability for potential litigation costs and losses (IFAC, 2020). Auditors stay abreast of changes in accounting standards, auditing procedures, and regulatory requirements, adapting procedures accordingly to mitigate potential liabilities (KPMG, 2019).

2.4.5. Efforts of Professional Bodies on Auditors' Liabilities

Professional associations and regulatory bodies recognize the urgent need to address the growing liabilities and legal risks faced by auditors to uphold the effectiveness and integrity of the auditing profession. The International Auditing and Assurance Standards Board (IAASB) and the American Institute of Certified Public Accountants (AICPA) have played pivotal roles in enhancing auditing standards, emphasizing the importance of rigorous risk assessment and professional skepticism (IAASB, 2019; AICPA, 2017). These standards provide auditors with clear and practical guidance to elevate audit quality and mitigate liability-related challenges.
To tackle auditor liability concerns, professional bodies have reinforced independence and ethics regulations. The "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (IESBA) offers guidelines to enhance auditors' independence and objectivity (IESBA, 2018). By minimizing potential conflicts of interest and enhancing audit credibility, these regulations aim to reduce liability risks.

Continual professional development is emphasized to enhance auditors' competence and keep them abreast of emerging issues. Advocacy efforts, in collaboration with regulatory bodies, governmental entities, and industry stakeholders, aim to enhance just and equitable liability frameworks. The International Federation of Accountants (IFAC) provides guidance to Professional Accountancy Organizations (PAOs) and auditing firms globally to mitigate risks (IFAC, 2019; IFAC, 2020).
Addressing auditors' liabilities is a priority for reputable professional organizations like the AICPA, which offers liability insurance tailored to the needs of CPA firms through initiatives such as the AICPA's Professional Liability Insurance Program (AICPA, 2021). Similarly, CPA Canada and ICAEW in the UK have developed policies and initiatives in collaboration with stakeholders to manage auditor liabilities (ICAEW, 2020; CPA Canada, 2018).

Professional organizations demonstrate their commitment to addressing auditor liabilities and promoting best practices by providing support, resources, and opportunities for collaboration, thereby aiding auditors in their professional development and enhancing their risk management capabilities.

2.4.6. The Future of Auditing Profession

The auditing landscape is undergoing significant transformations due to the mounting obligations placed on auditors, necessitating a closer examination of the profession's future trajectory. Auditors now contend with heightened scrutiny, intricate legal environments, and potential financial challenges. In response to these proactive measures addressing auditors' duties, it becomes crucial to explore the evolving landscape of auditing.
A pivotal shift in the auditing profession involves the integration of data analytics and technological advancements to enhance audit quality and mitigate risks. Innovations such as artificial intelligence (AI), machine learning, and robotic process automation (RPA) are leveraged to bolster the efficiency and effectiveness of audits. These technologies empower auditors by facilitating risk assessment, process auditing, and detection of irregularities or potential fraud within vast datasets (PwC, 2021).
Regulators and standard-setting organizations are actively refining auditing standards and regulations to confront auditors' liabilities head-on. The International Auditing and Assurance Standards Board (IAASB) regularly updates the International Standards on Auditing (ISAs) to address emerging risks and challenges encountered by auditors, offering clear guidance on risk assessment, fraud detection, and the integration of technology into audits (IAASB, 2018).
Continual professional development and training initiatives play a pivotal role in alleviating auditors' obligations. Businesses and professional bodies invest in initiatives aimed at enhancing auditors' knowledge and skills in areas such as emerging threats, ethical conduct, and professional skepticism (Deloitte, 2021). Equipped with requisite information, training, and tools, auditors can effectively navigate auditing challenges, mitigate liability risks, and uphold public trust.

Preserving independence and integrity remains paramount in reducing auditors' liabilities. Prioritizing conflict of interest management, maintaining independence, and fostering ethical behavior are focal points for professional bodies and firms. Rigorous adherence to independence protocols, setting lofty ethical standards, and fostering a robust ethical culture within auditing firms are crucial steps in mitigating liability risks and enhancing auditor credibility (EY, 2021).

Regulatory reforms and heightened oversight globally aim to address auditors' liabilities effectively. Bodies like the Public Company Accounting Oversight Board (PCAOB) in the US are implementing new audit standards and conducting rigorous inspections to bolster audit quality and mitigate potential liabilities (PCAOB, 2018). These regulatory changes strive to enhance transparency and accountability within the profession, ultimately reducing auditor liability.

Furthermore, expanding auditor reporting is gaining prominence to fulfill auditor responsibilities and provide stakeholders with more insightful information. Initiatives such as expanded auditor reports, inclusion of significant audit matters, and enhanced transparency aim to elevate the relevance and value of audit reports (KPMG, 2021). By offering comprehensive insights into the audit process and potential risk areas, auditors can bolster stakeholder confidence and mitigate potential liabilities.

3.0. Methodology

The methodology used for this study was purely review of related literature and consideration of decided cases on the study. This approach is justified by the fact that it makes it possible to gain a thorough understanding of the body of knowledge and prior judicial decisions pertaining to auditors' liability. This kind of evaluation might offer a strong starting point for more study or analysis of the subject. A similar approach to evaluating extant literature and case law had been used in a number of other works. Beattie et al. (1996), Jim and Prem (1999), Scot et al. (2003); Sanni (2010); Anantharaman et al. (2016) Kassem and Turksen (2021) are among the works that employed this methodology. In an area like auditing, where legal and regulatory frameworks are crucial, this research on auditor's liability can synthesize the body of knowledge, spot gaps or inconsistencies, and possibly lead to the development of new theories or useful recommendations by reviewing earlier works and decided cases.

4.0 Findings and Discussions

4.1. Findings

The findings of this study are hereby presented in a tabular form for better understanding.

Table 1: Summary of Findings

Type of Finding	Source
1. Auditors' liabilities cut across many companies and affect big audit firms.	1. Negligent case was brought against Deloitte in China in 2023 (Reuters 2023).

	2. Australian Securities and Investment Commission (ASIC) launched legal proceedings against E Audit Pty Ltd in 2021 (Angela, 2021). 3. The big six (now four) set aside USS1.1 billion in 1993 for litigation cases (Dalton et al, 1994).
2. Auditors’ reputation is seriously damaged due to negligence.	Free (1998)
3. Auditors’ duties and responsibilities are governed by company law and terms of engagement.	Section 10A of the SEC Act, 1934 as amended and similar laws in various countries.
4. Auditors’ duties and responsibilities are also governed by common law and equity and terms of engagement.	Hadly Byne & Co V Hellen & Partners Ltd (1964).
5. Auditors have duties and responsibility to third parties.	Ultramares Corporation V Touche (1931)
6. Auditors can be criminally liable	Worldcom scandal of 2002; Henry et al., (2019).
7. Auditors can also incur civil liabilities.	Hadly Byne & Co V Hellen & Partners Ltd (1964); Haloush (2021).
8. Auditors can mitigate against liabilities	KPMG (2019); Deloitte (2021); EY (2021); PWC (2022).
9. Auditors’ reports can still be credible in the face of all these liabilities.	Deloitte (2021); EY (2021)

Source: Author (2022)

4.2. Discussion

The scope of auditors' liabilities is broad, affecting both small and large audit firms. This underscores the pervasiveness of auditors' liability within the auditing profession and the larger business community. If auditors are perceived or found to be negligent, the public's trust and confidence in their ability to provide accurate and reliable financial information can be seriously damaged. This emphasizes the significance of diligence and care in carrying out auditors' responsibilities.

The complex legal structure that sets forth the obligations and responsibilities of auditors is very important. In addition to corporate regulations and engagement agreements, common laws, equity principles, and contractual agreements also bind auditors. The intricacy of auditors' responsibilities and the necessity of having a thorough awareness of legal standards and regulations are highlighted by this complicated regulatory environment. Notwithstanding the difficulties presented by their liabilities, auditors can reduce these risks and maintain the reliability of their findings. This could entail putting in place strict quality control systems, keeping meticulous records of audit procedures,

and participating in continuing professional development to remain up to date on best practices and changes in regulations. Though auditors may encounter serious risks at work, they have the chance to successfully manage these difficulties and maintain the integrity of their audit reports.

5.0 Conclusion

The review's conclusions highlight how widespread auditors' liability is, impacting both small businesses and large audit firms. The negative effects of carelessness on auditors' reputations emphasize how crucial it is for them to exercise thoroughness in carrying out their duties. Furthermore, the intricate legal structure that establishes the responsibilities of auditors highlights the necessity of having a thorough awareness of the laws and regulations. Despite these difficulties, auditors can reduce their risk by putting in place strong quality control procedures and keeping up with any changes to the law. In the end, even though auditors take on a lot of risk, they may preserve the integrity of their audit findings by paying close attention to their obligations.

5.1 Policy Issues/Recommendations

Policy discussions surrounding auditors' responsibilities have sparked debates and proposals aimed at addressing challenges within the auditing sector. These policy considerations aim to strike a balance between ensuring audit quality, safeguarding stakeholders' interests, and mitigating liability risks for auditors. Here are several suggestions and policy points to consider.

Strengthening the legal frameworks governing auditors' responsibilities is deemed essential to enhance accountability and transparency. Robust supervisory protocols, including inspections, legal actions, and disciplinary measures, should be established by regulators to ensure auditors adhere to ethical and professional standards (European Commission, 2018).

Policy discussions should closely examine regulations and liability limits concerning auditors' accountability. Catanach and Rhoades (2019) suggest evaluating and potentially modifying legal frameworks governing auditors' liability to ensure proportionality between culpability and its impact on audit quality. By aligning accountability with realistic expectations and professional standards, policymakers can establish a more effective and balanced liability system.

Policymakers can foster a proactive culture of risk management within the auditing industry. Encouraging the adoption of robust risk management frameworks, quality assurance protocols, and internal control systems can help auditing firms prioritize risk identification, assessment, and mitigation (IFAC, 2016). Policymakers may offer recommendations for best practices, guidelines, and information sharing to support these efforts.

Emphasizing the importance of auditor independence and professional skepticism is crucial for mitigating liability risks. Policies should address potential conflicts of

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interest and safeguard auditors' independence from the organizations they audit (AICPA, 2019). Promoting strong ethical cultures that uphold professional skepticism as a core value can enhance audit reliability and quality while reducing litigation risks stemming from compromised independence.
Legislators can support auditors' ongoing professional development by implementing rules incentivizing them to stay abreast of new risks, regulations, and technological advancements. Collaboration with professional associations and industry stakeholders can facilitate the establishment of mandatory training requirements, knowledge-sharing platforms, and research initiatives (European Union, 2014). Investing in continuous professional development enables auditors to enhance their skills, mitigate liability risks, and uphold public trust in the auditing profession.
Furthermore, policymakers can encourage innovation and technology adoption in the auditing sector. By promoting the use of new technologies, establishing guidelines for their application in audits, and funding research and development initiatives, lawmakers can enhance audit efficiency, risk analysis, and fraud detection capabilities (IAASB, 2021). Leveraging technologies such as data analytics, AI, and RPA can ultimately alleviate liability concerns while improving audit effectiveness.

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