

**THE DUTIES AND RESPONSIBILITIES OF INDEPENDENT
AUDITORS TO THE POTENTIAL INVESTORS**

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CHAPTER 1

INTRODUCTION

Introduction

Lately, subsequent to extensive white collar crimes and business failures, there have been many articles written by those who are interested in the accounting profession about the duties and responsibilities of the independent auditors. Fraud and business failures are seen to have strong connection with the primary duties and responsibilities of the independent auditors.

The questions arise when the present duties and responsibilities of the auditors seem to be no longer practicable for today's economic and business needs, and whether these duties and responsibilities be extended to cope with the changing circumstances and environment are inconclusive.

As an auditor, improvement in professional services and keeping his knowledge up-to-date in order to cope with the growing needs and expectations of the public is necessary. His liability is not only to his clients who pay his fees but also to those who may rely on his reports. Therefore, auditors are in a unique

position whereby they owe a duty of care to their clients as well as to unspecified third parties who may use and rely on the report in making business decisions.

Hence, auditors have certain liabilities to the public as a whole and they must exercise in the most absolute independence in expressing his opinion in the financial statements.

History of Auditing

In 1494, an Italian philosopher, Fra Luca Pacioli introduced the double-entry bookkeeping system and recommended that the books be audited for internal check.

However, prior to the Industrial Revolution, auditing was generally concerned with the detection of frauds. The Industrial Revolution then initiated large-scale commercial and industrial enterprises which eventually led to a number of financial failures, for which the independent auditors were needed.¹

Yet, the first compulsory auditing was enforced in Britain by the passing of the Companies Act 1862. The Act provided that at least once for every year the

1. RJ Anderson FCA, The External Audit, Second Edition, p.9