

THE LIABILITY OF EXTERNAL AUDITOR -
HOW IT IS DETERMINED
(ACC 556)

A PROJECT PAPER SUBMITTED TO THE MARA
INSTITUTE OF TECHNOLOGY
IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE ADVANCED
DIPLOMA IN ACCOUNTANCY

BY:

NAME : MOHD REDZWAN BIN SALLEH
STUDENT NO : 90628673
DATE : 11 FEBRUARY 1993

Acknowledgements

I would like to extend my endless thanks to those who have helped me in making this project paper. My sincere appreciation to my advisor Pn Mahfudzah Mohamed. Thanks to library staffs of Universiti Islam Antarabangsa and Malaysia Institute of Accountants for their cooperation. Finally to En. Nik Mohd Hasyudeen from Aidit & Co and to Miss Josephine Edwards from Malaysia Institute of Accountant for full support, understanding and patience throughout.

Abstract

Many of us will think auditor as a person who knows about the accountancy profession. Many of us perceive that the auditor is a qualified person and his work cannot be questioned. But how far it is true and to what extent he is liable towards their job is still a matter of question. Therefore this project paper will try to discuss and determine the extent of the liability of this profession.

TABLE OF CONTENTS

Acknowledgement.....	i
Abstract.....	ii
Table Of Contents.....	iii
Chapter 1:Introduction	
1.0 Introduction.....	1
1.1 Objective.....	4
1.2 Methodology.....	6
1.3 Scope and limitation of the study.....	7
Chapter 2:Literature Review	
2.0 Literature Review.....	8
Chapter 3:Analysis of data	
3.0 Background of study.....	13
3.1 Standard of skill and care of auditors.....	15
3.2 The relevance of professional standards.....	19
3.3 Limits of duty.....	20
3.4 Liability for breach of duty.....	22
i)Inadequate planning,control and recording of audit.....	22
ii)Inadequate ascertainment of the organizations accounting system and improper reliance on internal controls.....	24

iii) Failure to obtain relevant and reliable audit evidence.....	26
iv) Errors in reviewing financial statements.....	30
3.5 The liabilities of auditors to third parties.....	32
i) Special relationship.....	33
ii) The identification of the third party is not determined.....	34
iii) Foreseeability.....	35
3.6 The auditors liability -The Malaysian Perspective.....	37
3.7 Fraud.....	41
i) Why people commit fraud.....	43
ii) The responsibility for the detection of fraud.....	44
iii) How to prevent fraud.....	46
iv) The duty of fraud detection and prevention in Malaysian context.....	50
3.8 The expectation gap.....	58
i) Deficient performance component of the audit expectation-performance gap.....	60
ii) The reasonableness gap and the deficient performance standards gap	62
iii) The structure of the audit expectation-performance gap.....	63