

AUDITOR'S LIABILITY TO THIRD PARTIES

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## ABSTRACT

There has been so much controversy on auditors' duty, in particular their duty to third parties. A lot of debate in and out of the court has been going on concerning whether an auditor owe a duty of care to another party beside his own client or otherwise. If there is, what is the extent of such liability and by how much in monetary value can the third party obtain redress. Another very controversial area is the question of what are the 'acceptable measures' to prevent and limit these liabilities in order not to lose the credibility of the published financial statements.

An extensive study on court cases on this subject has shown seemingly conflicting decisions. Eventhough the court agreed on the three basic criteria (ie foreseeability, proximity and the whole circumstances of the case) on when an auditor does owe a duty to third party, their interpretations differ. The court initially ruled that auditors are liable, but more recently the decisions have been reversed. The main reason given by the court is that the auditors can not be burdened by such a wide liability.

The study, in the context of other literatures, will also discuss the measures suggested by the profession in coping with the litigation problems. It is suggested that auditors should take up measures that enhance the

profession's image in their attempt to meet their own goal of limiting professional liability. The auditor's credibility is of utmost important to his professional practice.