

# AUDITOR LIABILITY: The Current Condition, Regional Variations and future Prospects as Issues for Audit Regulators

# Our Shared Goal Is the:

Sustained Availability on a Global Basis of the  
**HIGHEST QUALITY** and Value of the  
**INDEPENDENT** audit services

Richard H. Murray

September 14, 09

2

# THE CONTEXT

- The Origins and Current Conditions of Audit Liability
  - In the US
  - In Europe
- The Constraints on Audit Firm Business Models
  - Ownership
  - Governance
  - Risk Financing
- The Heritage of Regulatory Studies in the US and Europe
- Current Audit Liability Trends and Evolving Conditions
  - In Europe
  - In the US
  - Globally

# THE EFFECT OF THESE CONDITIONS

## Goal 1:

### SUSTAINED AVAILABILITY

Business continuation

Adequate Competition

- Should Liability Containment be Sought?
  - EU- The McCreevy Report
  - US- The Treasury Report
- Why are the positions so conflicting?
- Can Liability Containment be Achieved?
- Emerging Alternative Proposals
  - UK- The Audit Firm Governance Code of Conduct
  - US- Government Intervention (Direct or Indirect)
- Personal View: The uncertain achievability of this goal is a hazard to the public interest.

# THE EFFECT OF THESE CONDITIONS

## GOAL 2:

### GLOBAL BASIS

Uniform Professional  
Quality

Consistent Application

- Auditors and Regulators have come a long way since the Asian financial Crisis
- Either Coordinated or Consolidated Regulation are Viable Options
- The Current State of Accounting Standards Convergence is Unhelpful
- Neither Europe nor the US have Fully Integrated Audit Regulation
- Trans-National Vicarious Liability is a Significant Obstacle for Audit Firms and Networks
- Personal View: Safety and Soundness must be in Balance with Enforcement as Regulatory Responsibilities

# THE EFFECT OF THESE CONDITIONS

## GOAL 3:

### HIGHEST QUALITY AND VALUE

The Fraud Detection  
Dilemma

The Audit Report

- Does the Risk of Audit Liability Enhance Audit Quality?
- Does the Risk of Audit Liability Interfere with Effective Regulation?
- Does the Risk of Audit Liability Constrain the Products Auditors Provide?
- Does the Risk of Audit Liability Limit the Value of the Audit Report?
- Does the fact of Audit Liability Impair the Respect and Contribution of Audit Services?
- Personal View: The Impressive Competencies of Auditors must Produce Products Comparable to their cost.

# THE EFFECT OF THESE CONDITIONS

Goal 4:  
INDEPENDENT AUDIT  
SERVICES  
In Fact  
In Perception

- Independent of Client
- Independent of Government
- Balanced Input from all Interests
- Consideration of Liability Potential
- Personal View: Independence Cannot be Preserved if these Forces are Ignored

# AUDIT LIABILITY AFFECTS ALL ASPECTS OF AUDIT REGULATION

Richard H. Murray

September 14, 09

8