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Legal Risks Faced by Auditors: Liability for Errors in Audit Opinions

Pipit Angelia Widiarti

STIE Pancasetia Banjarmasin, Kalimantan Selatan, 70248, Indonesia

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Corresponding author. Pipit Angelia Widiarti
pipitange@gmail.com

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ABSTRACT

Purpose: This study explores the legal risks auditors face, focusing on the interplay between stakeholder expectations, evolving regulatory frameworks, and behavioral implications. It examines how these factors influence auditor liability, independence, and professional decision-making, offering insights into mitigating legal risks and improving audit quality.

Research Design and Methodology: Using a qualitative approach, this study employs a systematic literature review (SLR) to analyze prior research on auditor liability, stakeholder expectations, and regulatory dynamics. The study synthesizes findings from academic journals, regulatory reports, and professional standards to develop a multidimensional framework for understanding auditor legal risks.

Findings and Discussion: The findings reveal that misaligned stakeholder expectations significantly increase litigation risks for auditors, as many stakeholders view audit opinions as guarantees rather than reasonable assurance. Regulatory frameworks, such as the Sarbanes-Oxley Act and International Standards on Auditing, amplify auditors' legal exposure due to varying compliance demands across jurisdictions. Additionally, behavioral implications, including increased auditor conservatism, are key consequences of litigation fears, which may compromise audit quality. This study also highlights the role of audit committees and professional training in mitigating these risks.

Implications: The research provides practical and managerial insights, emphasizing the need for enhanced training programs to address stakeholder expectations and litigation risks. It advocates for stronger independent oversight through audit committees and refining audit standards to clarify the scope of audit opinions. These findings offer valuable contributions to academia and practice, supporting efforts to reduce legal risks while maintaining audit integrity.

Introduction

Auditors hold a pivotal position in ensuring the integrity and reliability of financial reporting, which is essential for sustaining transparency and accountability in modern corporate governance. Financial audits serve as a critical mechanism for verifying the accuracy of financial statements, enabling stakeholders such as investors, regulators, and policymakers to make informed decisions with confidence (Ayogu, 2023). The demand for high-quality audits has grown exponentially in the contemporary global economy, where corporate activities are increasingly complex and

interconnected. This demand underscores the auditors' role in safeguarding public interest by objectively and reliably assessing an organization's financial health. However, despite their crucial contributions, auditors frequently operate under heightened scrutiny and are often exposed to significant legal risks (Bennett & Hatfield, 2013). These risks stem primarily from allegations of errors or deficiencies in audit opinions, which may include factual inaccuracies, instances of professional negligence, or flawed judgment in interpreting financial information. Legal challenges associated with these allegations are further compounded by the fact that audit work inherently involves subjective assessments and complex estimations, making it susceptible to disputes (Cannon & Bedard, 2017). The consequences of such challenges extend beyond individual auditors, as they can erode public trust in the auditing profession and compromise its perceived value in promoting financial accountability. Against this backdrop, it becomes essential to contextualize the dynamics of legal risks faced by auditors within the broader framework of professional standards, such as the International Standards on Auditing (ISA) and Generally Accepted Auditing Standards (GAAS) (Bradbury & Scott, 2022). These standards are designed to provide guidance and safeguards, but their effectiveness in mitigating legal risks remains an area of considerable debate.

The legal risks confronting auditors have become increasingly pronounced due to the evolving complexities of global business operations and regulatory frameworks. The rapid expansion of corporate activities across jurisdictions has introduced new layers of risk, as auditors must navigate varying legal and cultural environments while ensuring compliance with professional and ethical standards (Jejeniwa et al., 2024). Regulatory initiatives to enhance transparency, such as the Sarbanes-Oxley Act in the United States and equivalent frameworks in other jurisdictions, have imposed stricter oversight on auditors, intensifying their exposure to potential legal liabilities (Elshandidy et al., 2021). Financial misstatements and corporate fraud, often brought to light through audits, have served as primary triggers for litigation against auditors. In many cases, auditors are held accountable for failing to detect material discrepancies despite the inherent limitations of their scope and access to information. This creates a tension between stakeholders' expectations of absolute assurance and the practical realities of audit work, which is inherently limited to reasonable assurance (Backof et al., 2022). The increasing frequency of legal disputes involving auditors and their firms highlights a fundamental issue: the auditing profession's vulnerability to heightened stakeholder expectations that may exceed their responsibilities' practical and ethical boundaries (Vincent & Wilkins, 2020). These phenomena underscore the need to explore the factors contributing to auditor liability, particularly the interplay between regulatory demands, stakeholder perceptions, and the evolving nature of audit practices. The prevalence of such challenges has rendered auditor liability an area of growing importance, meriting in-depth investigation and critical discourse to ensure the profession's sustainability and relevance in an increasingly complex economic landscape.

Recent scholarship highlights the complexities surrounding auditor liability, emphasizing its multifaceted nature and the factors influencing it. Pratoomsuwan & Yolrabil (2020) investigate the effects of Key Audit Matter (KAM) disclosures on auditor liability judgments, revealing that while KAM disclosures reduce liability in fraud cases, they are less effective in mitigating perceptions of liability in error cases. This underscores the nuanced relationship between disclosure practices and liability risk. Liu et al. (2023) examine the impact of audit firms' organizational structures on earnings comparability. Their findings suggest that firms audited by auditors with greater liability exposure, such as those in Limited Liability Partnerships (LLP), exhibit improved financial statement comparability. This indicates that heightened liability incentivizes more rigorous audit practices. Lessambo (2018) explores the legal liabilities of auditors under common and statutory law, detailing the implications of negligence, breach of contract, and fraud. His work highlights the critical need for auditors to navigate legal challenges while maintaining professional standards. Chy & Hope (2021) demonstrate that heightened legal liability fosters increased auditor conservatism, leading to more cautious decision-making and raising concerns about Type-I errors in judgment. Li et al. (2024) explore the interplay between audit quality and legal risks, identifying that high-quality audits are associated with reduced earnings management and lower litigation risks.

While recent studies have significantly advanced the understanding of auditor liability, notable gaps persist in empirical and theoretical dimensions. Pratoomsuwan & Yolrabil (2020) emphasize the

influence of Key Audit Matter (KAM) disclosures in mitigating liability, particularly in fraud cases. However, their findings are less definitive regarding error cases, leaving unanswered questions about how auditors can effectively manage liability risks associated with non-fraudulent inaccuracies. Similarly, Liu et al. (2023) explore audit firms' organizational structures and highlight the benefits of increased liability exposure on financial statement comparability. Yet, it lacks an examination of how such structures affect the decision-making processes of individual auditors in high-pressure scenarios. Lessambo (2018) provides valuable insights into the legal foundations of auditor liability, focusing on negligence, breach of contract, and fraud. However, the study does not integrate empirical evidence from diverse regulatory jurisdictions, limiting its applicability to global contexts. Chy & Hope's (2021) work underscores the role of heightened liability in fostering auditor conservatism but raises concerns about Type-I errors, requiring further investigation to balance caution and judgment accuracy. Meanwhile, Li et al. (2024) establish a connection between audit quality and reduced legal risks but do not fully address the mechanisms by which specific audit practices can mitigate liability exposure. Collectively, these studies provide a fragmented understanding of auditor liability, lacking an integrated framework that connects professional standards, regulatory environments, and practical challenges. This gap necessitates a comprehensive synthesis of theoretical and empirical findings to inform strategies for mitigating auditor liability in an increasingly complex economic and legal landscape.

The novelty of this research lies in its integrative approach to examining auditor liability, explicitly focusing on the less-explored intersections of stakeholder expectations, regulatory dynamics, and professional standards as they contribute to legal risks for auditors. Unlike prior studies that address these elements in isolation, this study employs a systematic literature review (SLR) to synthesize diverse perspectives and create a unified framework for understanding the legal challenges faced by auditors. A key innovative aspect is exploring how evolving regulatory environments—particularly those influenced by globalization and adopting international standards—reshape auditors' legal exposure across jurisdictions. Additionally, this study delves into the nuanced role of stakeholder expectations in amplifying legal risks, recognizing that discrepancies between stakeholder demands and the inherent limitations of auditing processes are a significant yet underexplored source of liability. Another distinctive feature of this research is its emphasis on auditor liability's behavioral and decision-making implications, including how legal risks influence professional judgment and conservatism, potentially leading to unintended consequences such as Type-I errors or overly cautious audit opinions. By bridging these gaps, this study offers novel insights into actionable strategies for mitigating liability, including context-specific policy recommendations, enhanced training frameworks for auditors, and refinements to existing auditing standards to better align with the realities of legal and regulatory pressures. This comprehensive and multi-dimensional perspective addresses critical gaps in the existing literature and contributes to a deeper understanding of auditor liability in the modern economic landscape.

Literature Review

Agency Theory

Agency theory fundamentally addresses conflicts of interest between principals (owners or shareholders) and agents (management), particularly in resource management. Auditors, acting as independent intermediaries, play a critical role in resolving these conflicts by assuring the fairness of financial statements. Rahman et al. (2023) highlight that the choice of auditors significantly affects agency-related issues, as auditors ensure that management aligns its actions with the shareholders' interests. This aligns with the idea that auditors reduce information asymmetry, a core aspect of agency theory. The reliance on information provided by management, however, creates vulnerabilities. Velte (2023) emphasizes that auditors often face challenges in detecting fraud due to deliberate misrepresentation by management, which increases their legal exposure. Campa et al. (2025) illustrate how the interplay between auditors and regulatory enforcers is crucial in addressing financial restatements caused by management's manipulations, underlining the auditors' role as a safeguard against agency problems. This dynamic also contributes to the heightened legal risks faced by auditors. Kassem & Turksen (2021) argue that auditors are not only perceived as fraud detectors

but are also held liable for failures in financial reporting, even when the root causes lie in management's actions. Such expectations underscore auditors' critical but challenging role in mitigating agency conflicts while managing stakeholder perceptions. These studies illuminate the intricate relationship between agency theory and auditor liability, highlighting the tension between professional responsibilities and legal risks.

Auditors often face significant legal risks due to the expectation gap, a concept rooted in the disconnect between what stakeholders expect auditors to deliver and the scope of their professional responsibilities. This gap is particularly pronounced in cases of financial failures, where auditors are frequently held accountable despite underlying issues stemming from management's misconduct. Deepal & Jayamaha (2022) argue that the audit expectation gap persists as a significant concern, driven by unrealistic public expectations for absolute assurance instead of the reasonable assurance provided by audits. This misalignment creates substantial pressure on auditors, exposing them to heightened legal liabilities. Kumari & Ajward (2023) suggest that changes in the audit landscape, including adopting advanced technologies and evolving standards, have further complicated auditors' ability to meet stakeholder demands. Jedidi & Humphrey (2024) highlight that even with robust auditing standards, such as those implemented in Germany, the expectation gap remains unresolved, reflecting systemic challenges in aligning stakeholder perceptions with professional capabilities. High-quality audits, however, have proven to mitigate some aspects of this gap. Olojede et al. (2020) emphasize that rigorous audit practices enhance transparency, narrowing the information asymmetry between principals and agents. Similarly, Salehi & Arianpoor (2022) note that the choice of experienced auditors in complex group settings can significantly reduce stakeholder skepticism, reinforcing the role of audit quality in addressing expectation-related risks. These insights underscore the necessity of targeted strategies to close the expectation gap and safeguard auditors from unwarranted liabilities.

Errors in Audit Opinions

Errors in audit opinions, encompassing factual inaccuracies, professional negligence, and errors in judgment, remain a critical source of legal exposure for auditors. Factual inaccuracies occur when auditors fail to identify material misstatements, often due to inadequate evidence or flawed procedures, as highlighted by Quick (2023), who emphasizes the challenges posed by complex audit environments. Similarly, professional negligence involves failing to meet established standards, such as the International Standards on Auditing (ISA). Kumari & Ajward (2023) note that slight deviations from these standards can lead to significant legal consequences. On the other hand, errors in judgment stem from the misinterpretation of complex financial data despite reasonable efforts. McNellis et al. (2021) argue that these errors are particularly problematic because they blur the line between honest mistakes and negligence, further complicating legal defenses. Legal risks associated with these errors are exacerbated by the expectation gap, where stakeholders demand absolute assurance rather than the reasonable assurance provided by audits. Vincent & Wilkins (2020) underscore that this gap places auditors in a precarious position, as they are often held accountable for financial failures beyond their control. Yousefi Nejad et al. (2024) add that high-quality audits can mitigate some of these risks by enhancing transparency and demonstrating professional care. However, they caution that even the most rigorous audits cannot eliminate the risk of litigation. These findings collectively highlight the importance of maintaining professional standards, improving auditor judgment, and managing stakeholder expectations to address the legal challenges stemming from errors in audit opinions.

Key Audit Matters (KAM) have emerged as a critical tool in enhancing transparency and managing public perceptions of audit opinions. As part of the audit report, KAM disclosures provide detailed insights into areas of significant risk or complexity, allowing stakeholders to better understand the auditor's judgment. Velte & Issa (2019) emphasize that KAM can help reduce auditor liability in cases of fraud by clarifying the auditor's decision-making process and areas of focus. However, their study also highlights that KAM is less effective in addressing liability associated with non-fraud-related errors, such as factual inaccuracies or errors in judgment, suggesting room for further refinement in KAM approaches. The readability of KAM disclosures is another critical aspect influencing their effectiveness. Hussin et al. (2023) found that audit firm attributes, such as size and expertise,

significantly affect the clarity and comprehensibility of KAM reports. Improved readability not only aids stakeholders in understanding complex audit issues but also serves as a mitigating factor in reducing perceived auditor liability. Dwyer et al. (2024) argue that including detailed auditor risk assessments in expanded audit reports can enhance stakeholder trust while shielding auditors from unwarranted legal exposure. Aligning with these findings, Sirois et al. (2018) underscores the importance of adhering to rigorous audit procedures and standards to ensure the reliability and defensibility of KAM disclosures. Collectively, these studies highlight the evolving role of KAM in balancing transparency, stakeholder understanding, and auditor liability mitigation.

The Concept of Auditor Liability

Auditor liability encompasses the legal responsibilities auditors face when their work causes harm to stakeholders, whether through negligence, breach of contract, or fraud. Civil liability often involves financial restitution to affected parties due to reliance on misstated financial statements (Azzali & Mazza, 2020). On the other hand, criminal liability arises from severe offenses such as fraud or gross misconduct, which can lead to penalties, fines, or even imprisonment. For example, the Enron scandal showcased the legal risks auditors faced, resulting in criminal charges and conspiracy convictions despite the auditors' lack of direct fraudulent activity (Vincent & Wilkins, 2020). A significant challenge in assessing auditor liability lies in the ambiguity surrounding negligence. The expectation of "due care" varies across jurisdictions, complicating the determination of whether auditors have adequately fulfilled their professional responsibilities. This challenge was highlighted in research by Best (2005), who emphasized the need for more transparent regulatory frameworks to minimize such ambiguities. Moreover, the expectation gap between the reasonable assurance auditors provide and the absolute assurance stakeholders often anticipate exacerbates legal risks. Quick (2020) argues that this gap usually leads to unrealistic expectations of auditors' ability to detect all forms of misstatements or fraud. These issues underline auditors' need to adhere to stringent professional standards and continuously enhance their skills to address complexities in modern financial reporting.

The expectation gap, defined as the disparity between the reasonable assurance provided by auditors and the absolute assurance often anticipated by stakeholders, is a primary contributor to auditor liability. In practice, auditors provide assurance based on available evidence, yet stakeholders frequently expect them to uncover all misstatements, including concealed fraud. Harber & Willows (2022) emphasize that this disconnect places auditors in a precarious position, as they are often held accountable for failures outside their professional scope. This gap becomes particularly problematic in significant financial misstatements or corporate failures. Regulatory frameworks further influence the extent of auditor liability. Collings (2011) highlights that while auditing standards, such as the International Standards on Auditing (ISA), aim to establish clear guidelines for auditor responsibilities, they do not fully address the unrealistic expectations of stakeholders. In jurisdictions with stringent regulations, such as the United States under the Sarbanes-Oxley Act, auditors face heightened accountability, which, while intended to bolster transparency, also amplifies their exposure to litigation (Gunz & Thorne, 2019). To mitigate these risks, a multifaceted approach is necessary. Gao & Zhang (2019) suggest that ongoing auditor training and stricter adherence to professional standards can reduce the likelihood of errors and misstatements. Moreover, improved communication with stakeholders to clarify the scope and limitations of audits can help narrow the expectation gap. By integrating these strategies, auditors can navigate the complex legal landscape while maintaining professional integrity.

Research Design and Methodology

Study Design

This research employs a qualitative Systematic Literature Review (SLR) to explore and synthesize the factors influencing legal risks for auditors. The SLR method is designed to provide a structured, rigorous, and transparent process for reviewing existing literature, focusing on themes such as regulatory environments, stakeholder expectations, and audit quality. The study ensures comprehensive coverage and depth in addressing the research objectives by systematically identifying

and analyzing scholarly works. This approach facilitates the identification of research gaps and theoretical insights relevant to auditor liability.

Sample Population or Subject of Research

The research centers on scholarly articles, books, and reports published after 2018 from credible databases, including Elsevier, Emerald, Springer, and Wiley. The focus was on literature that directly addresses auditor liability, expectation gaps, and audit quality within regulatory and professional contexts. Inclusion criteria required publications to be peer-reviewed and relevant to the research objectives. Exclusion criteria removed studies that lacked substantial discussion on the legal risks faced by auditors.

Data Collection Techniques and Instrument Development

Data collection involved systematic searches in electronic databases using targeted keywords such as "auditor liability," "legal risks for auditors," and "expectation gap in auditing." The search process was conducted in multiple stages, including title screening, abstract review, and full-text analysis. Developing a coding framework facilitated the organization of literature by themes, enabling a detailed exploration of key topics—data extraction templates, document publication details, research objectives, methodologies, and findings.

Data Analysis Techniques

The analysis followed a thematic approach to identify, classify, and synthesize recurring themes across the selected literature. Key themes such as regulatory frameworks, audit quality, and expectation gaps were systematically reviewed to draw connections and derive insights. Comparative analysis was used to evaluate differing perspectives and methodologies within the literature. This approach ensured a thorough understanding of the factors influencing legal risks for auditors and provided a robust foundation for conclusions and recommendations.

Findings and Discussion

Findings

Auditors often face a significant gap between the expectations of stakeholders and the practical limitations of auditing processes, which creates legal and reputational risks. Stakeholders frequently misinterpret the purpose of audits, expecting them to guarantee the complete accuracy of financial statements. However, auditing is inherently limited to providing reasonable assurance, not absolute certainty. This misconception places auditors under immense pressure, particularly when material misstatements or financial irregularities emerge post-audit. Ayogu (2023) underscores that stakeholders' unrealistic demands often lead to litigation against auditors, even when they operate within professional standards. Furthermore, the legal risks intensify in high-stakes industries where financial transparency and accountability are critical, such as banking and publicly listed firms. For example, Azzali and Mazza (2020) found that top management dismissals due to financial restatements often shift blame to auditors, amplifying their exposure to legal action. Stakeholders' misunderstanding of audit scopes creates heightened scrutiny of audit outcomes, increasing the likelihood of claims against auditors for perceived negligence. This issue is compounded by media and regulatory attention that further erodes public trust in auditing. As Dwyer et al. (2024) suggested, managing stakeholder expectations through education and clear communication in audit reports is crucial for reducing these risks. Clarifying that audits aim to provide reasonable, rather than absolute, assurance can help mitigate misunderstandings, align expectations with professional realities, and ultimately protect auditors from unwarranted liability.

The evolving regulatory landscape significantly impacts auditors' legal exposure, particularly in jurisdictions with stringent compliance measures. Laws such as the Sarbanes-Oxley Act (SOX) in the United States and the International Standards on Auditing (ISA) globally impose rigorous procedural standards to enhance transparency and trust in financial reporting. However, these regulations also increase litigation risks for auditors by enforcing higher levels of accountability. Gao and Zhang (2019) highlight that auditors operating under ISA face heightened scrutiny, as deviations from mandated

standards can lead to significant legal consequences. The global convergence of auditing practices further complicates these risks, requiring auditors to navigate varying regulatory expectations across jurisdictions. Bradbury and Scott (2022) found that auditors in multinational engagements often face conflicting compliance requirements, exposing them to liability in multiple legal systems. For instance, while SOX strengthens investor confidence, its strict provisions, such as Section 404 on internal controls, place auditors under more significant legal pressure when material weaknesses are detected. Campa et al. (2025) emphasize that global regulators increasingly hold auditors accountable for failures in detecting fraud or financial misstatements, regardless of whether these fall within the scope of reasonable assurance. To address these challenges, auditors must adopt adaptive strategies, such as developing a deeper understanding of cross-jurisdictional regulations and refining their risk assessment practices. These measures can help auditors better navigate regulatory complexities, align with global standards, and mitigate legal exposure effectively.

Legal risks significantly influence auditors' professional judgment and decision-making processes, often leading to conservative behaviors. Fear of litigation motivates auditors to issue overly cautious audit opinions, which, while protective against immediate legal threats, can create unintended consequences. Chy & Hope (2021) note that this conservatism may result in Type-I errors, where auditors identify issues that do not exist, raising unnecessary concerns among stakeholders. Such errors undermine the credibility of audit reports and disrupt financial markets by creating unfounded alarms. Additionally, the psychological burden of potential lawsuits affects auditors' ability to remain objective, as Harber & Willows (2022) noted. The pressure to balance professional independence with client and regulatory expectations further exacerbates this issue. Rahman et al. (2023) observed that auditors in high-risk engagements often adopt defensive auditing strategies, focusing more on mitigating liability than optimizing audit quality. This shift in focus can dilute the auditors' primary role of providing an accurate and unbiased assessment of financial statements. Auditors frequently encounter conflicts between ethical obligations and external pressures, such as management influence or regulatory demands. These conflicts impact audit quality and contribute to the erosion of trust in the profession. Addressing these challenges requires robust organizational support systems, including mentorship programs and access to independent oversight mechanisms. The profession can maintain its integrity and reliability by fostering an environment that prioritizes ethical auditing practices and supports auditors in managing legal risks.

Mitigating the growing legal risks auditors face requires a multifaceted approach that combines education, regulatory reforms, and practical interventions. Tailored training programs enhance auditors' awareness of potential legal pitfalls and improve their professional judgment. Elshandidy et al. (2021) noted that targeted training initiatives help auditors develop the skills to navigate complex legal and regulatory environments. Additionally, refining auditing standards to better align with practical realities can reduce ambiguities that lead to misinterpretations. Hussin et al. (2023) highlight the importance of clearly defining reasonable assurance in audit reports to manage stakeholder expectations effectively. Context-specific regulatory frameworks are also critical for addressing regional differences in auditing practices and legal systems, as discussed by Jedidi and Humphrey (2024). For instance, implementing flexible compliance measures that account for local market conditions can minimize inconsistencies and improve auditors' ability to adhere to standards. Moreover, independent oversight mechanisms, such as audit committees, are pivotal in ensuring transparency and accountability within audit engagements. These committees provide an additional layer of scrutiny, helping to identify and address potential biases or conflicts of interest. Furthermore, enhancing communication between auditors, stakeholders, and regulators can foster a better understanding of audit objectives and limitations. By adopting these strategies, the auditing profession can strengthen its resilience against legal challenges while maintaining its commitment to delivering high-quality and reliable financial reporting.

This study integrates diverse perspectives to comprehensively understand auditor liability, addressing critical gaps in the existing literature. Synthesizing findings from multiple studies creates a unified framework that highlights the intersections between stakeholder expectations, regulatory dynamics, and professional standards. Velte (2023) emphasizes the evolving nature of regulatory environments and their role in shaping auditors' legal exposure, particularly in globalized financial

markets. Additionally, the study explores legal risks' behavioral and decision-making implications, offering insights into how litigation fears influence professional judgment and audit conservatism. Jejeniwa et al. (2024) stress the importance of effectively aligning legal accountability with ethical auditing practices to mitigate these challenges. The research identifies actionable recommendations, such as enhancing training frameworks and refining standards, to equip auditors better to navigate modern regulatory and legal landscape complexities. By bridging theoretical and practical insights, this study contributes to developing more effective policies and practices that enhance the auditing profession's ability to manage legal risks while upholding its integrity and trustworthiness. These integrative findings advance academic discourse and provide valuable guidance for practitioners, policymakers, and regulators seeking to address the evolving challenges of auditor liability.

Discussion

The findings of this study emphasize that auditors face significant legal risks due to a misalignment between stakeholders' expectations and the auditing process's inherent limitations. Stakeholders, such as investors, regulators, and other users of financial statements, often misunderstand the nature of audit opinions, viewing them as guarantees of financial accuracy and integrity. However, the auditing process is designed to provide reasonable assurance, acknowledging that absolute certainty is unattainable due to inherent limitations such as sampling techniques, reliance on management representations, and the complexity of financial transactions. This misperception creates undue pressure on auditors, especially when errors or material misstatements emerge, leading to economic losses for stakeholders. These stakeholders frequently interpret such incidents as auditor negligence, even when auditors diligently adhere to established professional standards. For instance, the failure to detect minor discrepancies, which may not be material within the scope of reasonable assurance, is often magnified by stakeholders who equate these oversights with gross incompetence. This expectation gap exacerbates auditors' exposure to legal claims and undermines the fundamental trust between the auditing profession and its stakeholders. Addressing this gap requires a concerted effort to educate stakeholders on the scope and purpose of audit engagements while reinforcing the role of audits as mechanisms to enhance transparency and accountability. Bridging this gap is essential for reducing the frequency of litigation and ensuring that audits continue to serve their intended purpose in safeguarding financial reporting integrity.

The study highlights the dual impact of regulatory frameworks, such as the Sarbanes-Oxley Act (SOX) in the United States, on the auditing profession. While these regulations aim to enhance corporate transparency and accountability, they also heighten the legal risks auditors face. SOX, in particular, imposes stringent requirements on auditors, including evaluating internal controls over financial reporting under Section 404. Meeting these standards often demands extensive time and resources, and failure to do so, even under complex circumstances, frequently results in severe litigation (Gao & Zhang, 2019). The study also examines the implementation of international regulatory frameworks, such as the International Standards on Auditing (ISA), which aim to harmonize audit practices globally. However, this harmonization introduces unique challenges for auditors operating across different jurisdictions. For instance, auditors in multinational contexts often navigate conflicting requirements between local and international regulations, creating additional layers of complexity and increasing their susceptibility to cross-border litigation (Bradbury & Scott, 2022). Moreover, regulatory environments in different countries vary significantly in enforcement intensity, legal frameworks, and cultural expectations, further complicating compliance for auditors. This dynamic places auditors in a precarious position, where adherence to one set of standards may inadvertently lead to non-compliance in another jurisdiction. While these regulations are intended to uphold high audit quality standards, their unintended consequences include amplifying auditors' legal exposure and fostering a defensive approach to audit engagements. A nuanced understanding of these regulatory dynamics is critical for developing strategies to balance accountability with reduced litigation risks.

The study reveals that legal risks significantly influence auditors' professional behavior, often resulting in conservative decision-making during the audit process. Driven by the fear of litigation, auditors tend to adopt overly cautious approaches when forming audit opinions to avoid potential legal

repercussions. While protective in the short term, this conservatism can lead to unintended consequences, such as Type-I errors, where auditors identify risks or issues that do not exist. These overly cautious audit opinions diminish the utility of audits as decision-making tools, eroding stakeholder trust in their effectiveness (Chy & Hope, 2021). Furthermore, the study identifies that external pressures from regulators or clients exacerbate these behavioral challenges. Regulators' heightened scrutiny often compels auditors to prioritize compliance over professional judgment, leading to overly defensive audit practices. Simultaneously, pressures from influential clients may create ethical dilemmas, forcing auditors to navigate conflicts between maintaining independence and preserving client relationships. Harber and Willows (2022) highlight that these pressures compromise objectivity, a cornerstone of the auditing profession, ultimately affecting the quality and reliability of audit outcomes. The cumulative effect of these behavioral dynamics is weakening the auditing profession's credibility and role in upholding financial transparency. To mitigate these challenges, the study underscores the importance of fostering a culture of professional skepticism and resilience among auditors, supported by comprehensive training and organizational safeguards to withstand external pressures. These measures are critical for maintaining the profession's integrity amidst the evolving complexities of legal and regulatory landscapes.

The findings of this research align theoretically with the foundational principles of Agency Theory, which provides a framework for understanding the inherent conflicts of interest between the owners of a company (principals) and its management (agents). According to Jensen and Meckling (1976), who first articulated this theory, the separation of ownership and control in modern organizations creates a potential for managerial behavior that may not align with the interests of the shareholders. Auditors, independent third parties, play a critical role in mitigating these conflicts by reducing information asymmetry and ensuring that financial statements accurately reflect a company's financial position. Their objective evaluations provide the transparency and accountability necessary to bridge the gap between principals and agents, promoting trust and effective governance. However, the legal risks auditors face reveal additional dynamics that are not fully addressed by traditional agency theory. External pressures, such as the growing scrutiny from regulators and unrealistic expectations from stakeholders, introduce complexities beyond the agent-principal relationship. Stakeholders often expect auditors to provide absolute assurance, leading to heightened litigation risks when discrepancies arise, even if auditors adhere to professional standards. These dynamics underscore auditors' evolving challenges in fulfilling their roles effectively, highlighting the need for theoretical frameworks to consider the broader regulatory and stakeholder environment. This expanded perspective enhances our understanding of the nuanced factors influencing auditors' ability to maintain independence and uphold their professional responsibilities.

Compared to prior research, the findings of this study demonstrate alignment with several earlier studies that emphasize the relationship between stakeholder expectations and legal risks auditors face. For instance, Ayogu (2023) highlighted that a common misunderstanding about the role of auditors frequently leads to unfair litigation. Many stakeholders mistakenly perceive auditors as providing guarantees about the accuracy of financial statements, failing to recognize the inherent limitations of audits, which offer only reasonable assurance. This misalignment often results in legal challenges against auditors, even when they adhere to professional standards. Similarly, this study is consistent with the findings of Bradbury & Scott (2022), who examined how global regulatory frameworks increase auditors' legal exposure, particularly when regulations such as the Sarbanes-Oxley Act impose stringent accountability requirements. However, this research advances the discussion by incorporating a behavioral dimension, particularly auditor conservatism driven by litigation fears, which previous studies have not explored in depth. This aspect provides a more comprehensive understanding of how legal risks influence auditors' professional judgment and decision-making processes. Conversely, the study diverges from prior literature, such as Elshandidy et al. (2021), focusing more on oversight mechanisms than behavioral implications. This divergence underscores the necessity for a multidimensional approach to understanding auditor legal risks. By examining regulatory pressures, stakeholder expectations, and behavioral dynamics in tandem, this study contributes a broader and more integrative perspective to the discourse, addressing critical gaps left by earlier research.

The practical implications of this research are highly relevant to the auditing profession, particularly in addressing and mitigating the legal risks auditors face. The findings can inform the development of policies and strategies to reduce these risks and enhance the overall effectiveness of audits. One of the key recommendations is enhancing training programs for auditors, focusing specifically on understanding and managing legal risks. Such training should emphasize raising awareness of excessive stakeholder expectations and equipping auditors with the tools to maintain professional skepticism amidst external pressures. This focus is critical to ensuring auditors can navigate complex and often conflicting demands while preserving their independence and objectivity. The role of audit committees as independent oversight mechanisms must be strengthened. By providing a buffer between auditors and external influences—whether from clients or regulators—these committees can ensure auditors have the necessary support and autonomy to perform their duties without undue pressure. This independence is vital for maintaining the integrity of the auditing process. Adjustments to auditing standards are also necessary to manage stakeholder expectations effectively. Clarifying the scope and limitations of audit opinions in these standards can help stakeholders better understand the purpose of audits, thereby reducing unrealistic demands and subsequent legal risks. By implementing these recommendations, the auditing profession can improve its ability to manage legal challenges while reinforcing stakeholder trust in the audit process. Such measures not only address immediate risks but also contribute to the long-term sustainability and credibility of the profession in an increasingly complex regulatory and stakeholder landscape.

Conclusion

This study has comprehensively explored the legal risks auditors face, focusing on the interplay between stakeholder expectations, regulatory dynamics, and behavioral factors. By examining how these elements contribute to auditor liability, the research has addressed key questions surrounding auditors' challenges in maintaining independence and professionalism amidst increasing litigation risks. The study underscores the significance of bridging the expectation gap, clarifying the role of audits as instruments of reasonable assurance, and understanding the broader implications of evolving regulatory frameworks. Furthermore, it highlights the behavioral consequences of legal risks, such as heightened conservatism in audit opinions, which affect audit quality and stakeholder trust.

The originality of this research lies in its integrative approach, which synthesizes regulatory, stakeholder, and behavioral dimensions to provide a nuanced understanding of auditor liability. The findings contribute to academic knowledge and professional practice by highlighting the need for targeted training programs, enhanced audit committee oversight, and revisions to auditing standards to better align with stakeholder realities. From a practical perspective, the study offers actionable recommendations for reducing legal risks, such as fostering greater awareness of stakeholder expectations and emphasizing the role of professional skepticism. These insights are valuable for auditors, regulators, and policymakers seeking to strengthen the resilience and credibility of the auditing profession in an increasingly complex environment.

Despite its contributions, this study has limitations that provide avenues for future research. First, the focus on secondary data limits capturing real-time insights into auditor behavior and decision-making processes. Future studies could incorporate primary data through interviews or surveys to better understand auditors' practical challenges. Additionally, the research primarily examines legal risks in the context of developed regulatory environments; exploring these dynamics in emerging markets could yield valuable comparative insights. Further, future research should investigate the long-term effects of litigation fears on audit quality and the evolution of regulatory standards to address the challenges identified in this study. These directions will enrich the literature and support the ongoing efforts to enhance the auditing profession.

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